AMERICAN BANKERS ASSOCIATION JOURNAL

Index to Volume XIX

JULY, 1926—JUNE, 1927

F. N. SHEPHERD . . . . Publisher
JAMES E. CLARK . . . . Editor
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OFFICE OF PUBLICATION
110 East 42d Street, New York

AMERICAN BANKERS ASSOCIATION JOURNAL

Our Investments in Latin American Government Securities

By G. BUTLER SHERWELL

They Amount to $1,083,591,400. The United States May Become the Preferred Banker of Southern Countries Because This Nation is the Principal Market for Their Products. To Increase Trade We Must Continue to Assist with Invested Capital.

NEVER were the people of the United States more vitally interested in the affairs of the Latin-American governments than they are today. Out of a calculated total of $9,500,000,000 of American capital invested abroad, about 44 per cent has gone into Latin America. The table given elsewhere shows that American capital has been lent to Latin-American governments to the extent of $1,083,591,400 as compared with something like £350,000,000 which England has lent to those governments since the beginning of their independent life.

The rôle of banker to Latin America is relatively new to this country. It was about 1900 that American capital began to cross by itself the borders into the undeveloped adjacent territory, when a loan for $1,000,000 was extended to the State of Jalisco, Mexico, for public works. Up to the outbreak of the European War the genuinely American loans to Latin-American governments amounted to $85,230,000 as compared with the total of $1,083,591,400 lent up to April 1, 1926.

The Use of Loans

AMERICAN dollars have done constructive work in the various countries of Latin America through loans to their governments. Since the time of William Wheelright, who many generations ago built the first railroad in South America, and that of Henry Meiggs, the builder of the Central Railroad of Peru, American enterprise and constructive genius have been shown whenever the dollar has gone.

IN view of the growing importance of the United States as the banker of Latin American countries, the series of articles on investments and investment conditions, which starts in this issue, should be of more than passing interest.

They are both readable and informative. Mr. Sherwell has long been a close observer of financial and economic conditions in foreign countries. His presentation which touches upon all of the Latin American countries reveals conditions useful to those seeking investment or trade guidance.

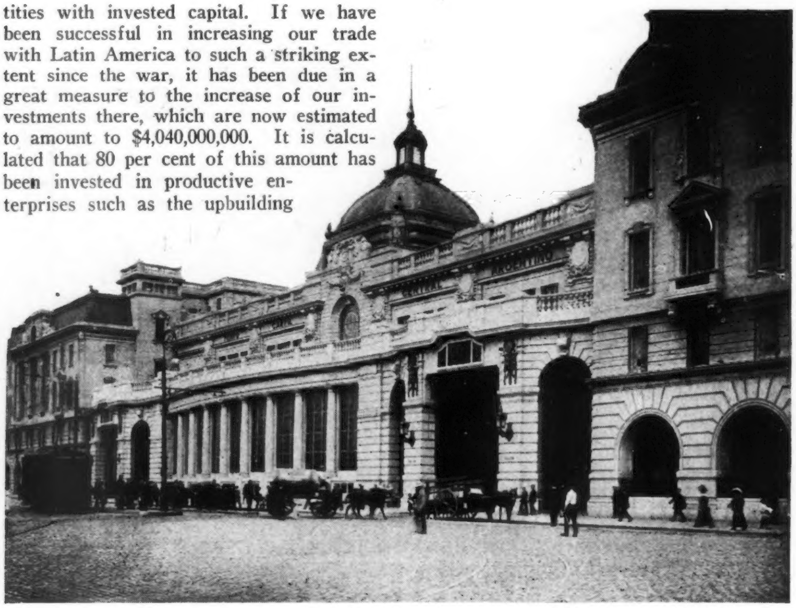
There is justification in the belief that the United States has an inherent right to become the preferred banker of Latin America, not only for reasons of propinquity, but also because of the fact that several of the Southern countries are economically dependent upon the United States, and all of them have this country as their principal market for their products. Our balance of trade with Latin America is unfavorable. In 1925 we purchased goods there amounting to $1,133,801,864, and our exports to those countries were valued at $960,393,445. A considerable percentage of the latter amount was made up by manufactured articles and construction material purchased with the proceeds of loans made to the governments of the Southern countries. We have been instrumental, therefore, not only in developing Latin America's resources on account of our increasing purchases there, but also in the building up of those countries through the construction of railroads and public works by means of public loans.

A Big Buyer

IN the case of some of the Latin-American countries, the importance of the United States as a factor in their economic well-being is striking. This country, besides being the principal market for Brazilian coffee, taking 67 per cent of the total crop, is the only large buyer which allows this product to enter duty free. England, France, Italy, Germany, and Belgium all impose import duties on coffee. Our purchases of coffee in Brazil last year amounted to $158,000,000, and this figure is likely to be exceeded this year.

If we expect to increase our trade with Latin America in the face of a pressing European competition, we must continue to assist those rapidly growing economic en-

tities with invested capital. If we have been successful in increasing our trade with Latin America to such a striking extent since the war, it has been due in a great measure to the increase of our investments there, which are now estimated to amount to $4,040,000,000. It is calculated that 80 per cent of this amount has been invested in productive enterprises such as the upbuilding of Latin America's economic power and the development of her vast resources.



The Retiro station of the British-owned Central Argentine Railroad in Argentina

The Government's Attitude

IT is generally believed that foreign trade and foreign policies are difficult to separate; that whenever the dollar goes, the American government also goes, and in some cases in some meddling or aggressive capacity. It is true that in the case of some of the smaller Latin-American countries large foreign investments have resulted in economic imperialism, but in the case of the majority of countries our investments have been responsible only for a better international understanding and an increased interest in foreign problems. Persons who have money invested in Argentina are quite naturally concerned not only with developments in that part of the world, but also in the commercial trend of the products responsible for the prosperity of that country.

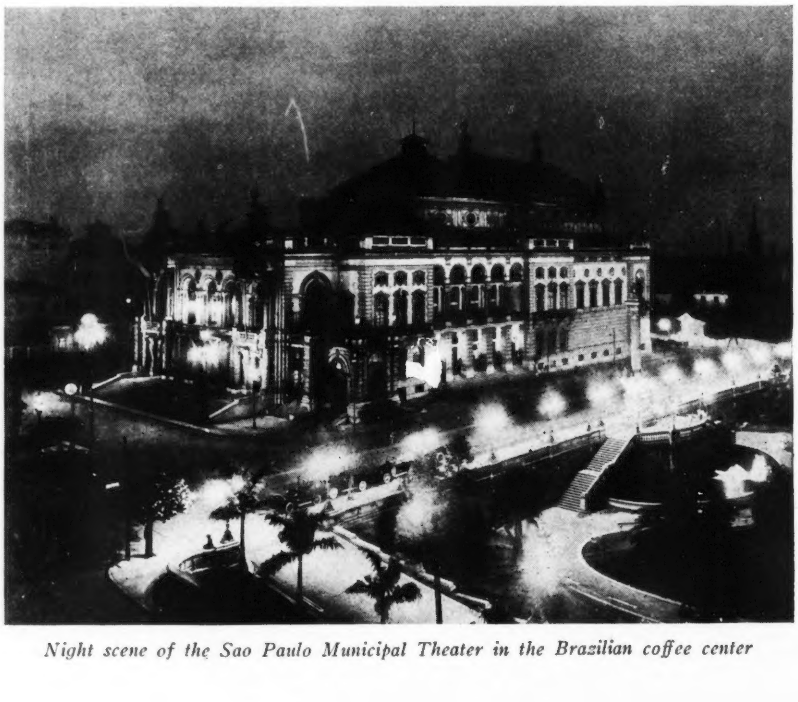
Frequently in the granting of a loan to a government special conditions or provisions are agreed upon. In the 1923 American loan to El Salvador, it was agreed that in case of default, an American would be allowed to undertake the collection of customs revenues, and a representative of the lenders is actually supervising the collection of the duties. A similar arrangement was made in the case of the British loan to Costa Rica. Some contend that this obviously indicates a lack of faith in the good intentions or ability of the borrowing government, and would seem to make questionable the advisability of placing such a loan. It is further contended that if we cannot trust the governments to whom we lend money to act wisely in the discharge of the debt, we should refrain from granting them the assistance.

This is a narrow attitude to take. Even in the case of a strong country like France, the bankers who opened a credit of $100,000,000 to that country in March, 1924, obtained assurances of certain financial reforms by the Senate. The whole problem resolves itself into a simple banking transaction, in which the banker lends out, not his money, but other people's money, and has the obligation to obtain all sorts of guarantees that the money will be repaid. A banker has free access to the books of his debtors, and if the books are kept clean, the debtor is not afraid to show them to his creditors. The supervision of the collection of custom-house duties by a bankers' representative in El Salvador has resulted not only in securing an amount ample enough to cover the debt service, but also in increasing collections several times the amounts collected prior to the appointment of the supervisor. This satisfactory result has prompted other governments of small Latin-American countries to seek financial assistance in New York with the understanding that a financial supervisor will be appointed by the bankers. Whatever the case might be, the provisions attached to loans are for the protection of the investor's money.

The State Department's attitude regarding American foreign loans is that of an advisor only. The Secretary's circular of March, 1922, which requested bankers to inform the State Department regarding contemplated foreign loans "in view of the possible national interests involved" was issued in order to give the Department an opportunity to object. In other words, the Department does not pretend to pass on the soundness of a loan as an investment, but merely to express an opinion regarding possible international consequences.

Objected to Coffee Loan

AN illustration of this point may be obtained in the recent refusal of the State and Commerce Departments to approve a loan to the State of São Paulo, Brazil, for coffee-valorization purposes. That coffee prices have considerably increased since the adoption of coffee-valorization schemes by the Brazilian governments, all of which have been successful so far, is of domestic knowledge. It was also known that at least part of the proceeds of an American loan to Sao Paulo for a certain definite purpose other than coffee valorization was diverted to the financing of coffee growers. The State Department objected to a loan which, although it was to be made allegedly for the purpose of the establishment of a bank, it was evidently intended to keep coffee prices at arti-



Night scene of the Sao Paulo Municipal Theater in the Brazilian coffee center

The beautiful Plaza de Mayo at Buenos Aires in Argentina

ficial levels. The loan finally went to England, and at least one American house is known to have offered in this market a portion of the loan which was attractive both because of the security tendered and the interest yield. The great advantage derived by both the United States and Brazil from the refusal of the State Department to consent to the loan was in the first instance that the American public has been widely informed of the reasons for the increase in price of its favorite daily beverage, and in the second instance the coffee manipulators of Brazil are now exercising a great deal of care in the fixing of coffee prices which has had as a result a relative stabilization in the latter.

The relations between the United States and Latin America in connection with our investments and other interests there have been subject to considerable criticism. It has been widely contended that the policy of the United States toward Latin-American countries has followed the desires of American investors. Although in some cases this belief appears to have been confirmed, in general the United States has not sought special or exclusive privileges in trade or investments in Latin America as has been the case in connection with some European countries. In some cases certain peculiarly intimate relations have come about by mutual agreement and understanding. It is an undeniable fact that some of the smaller countries have been and are at present at the mercy of large foreign enterprises which control the economic destinies of those countries. Situations of this character have been due not to the action of the State Department, but to the peculiar ethics of the people who rule the destinies of the Latin-American country involved.

Room for Graft

THE word "concession," which is used in most of the Southern countries to express a special privilege accorded by the native government to a corporation to develop certain line of endeavor, is a calamity inherited from Colonial times. It leaves room for graft on an immense scale and has been responsible for the majority of revolutions which have affected our Southern neighbors. A recent calculation of the amount of customs revenues lost to the government of one of the Central American countries through concession granted to foreign and domestic enterprises showed that about 60 per cent of the goods imported or exported passed the customs free of duty; the result being that the government is not able to collect enough money to pay for administration expenses. Loans from the foreign enterprises established there have had to be resorted to, which have been piling up to such an extent that the political and economic freedom of the country is at present a matter of conjecture.

No Imperialistic Policy

AS to the question of political relations between the United States and Latin America, several countries have had unstable and irresponsible governments, and our intervention there has been in accordance with the precepts of the Monroe Doctrine. In all cases the United States has shown its good faith by the withdrawal of armed forces, notwithstanding the fact that in at least one case, that of Nicaragua, the government urged that the marines be retained.

The United States has not collected debts by force, and official declarations have made it quite clear that American capital going abroad does so at its own risk. American investors have before them the domestic and the foreign field. If they choose to invest their savings in the foreign field, it is because they consider it more advantageous. The United States cannot pursue a policy of economic or financial imperialism when American investments abroad are voluntary. Many Latin-American countries desiring foreign capital are particularly desirous that such capital come from the United States, since they know that the government of this country seeks a fair opportunity and fair treatment on the part of foreign governments for just rights acquired in good faith.

One important phase in the economic policy of the United States is the promotion of foreign trade. Our trade with Latin America may be considerably increased by means of loans to those countries. Since the close of the European War there has been registered a considerable decline in the purchasing power of the countries of central and eastern Europe and the Near and Far East. In the case of Latin America, the progressive improvement of means of communication, the development of the distinctive natural resources and aptitudes of the various countries have created a decided increase in the purchasing power of almost every country with the possible exception of Mexico, where general conditions remain unsettled. American capital has been responsible to a great extent for such improvement. Financial and political conditions of the chief consuming and producing Latin-American countries appear to have entered into a period of definite stabilization. Another important feature in the effect of American loans to Latin America has been the impulse which the new capital has given to local manufacture. Some contend that this is harmful to the American export trade. The tendency to local manufacture in Latin America has been greatly intensified since the war, although some of the wartime developments will probably not prove permanent. In South America, Brazil has developed a number of industries, including textiles and boots and shoes, the annual value of the products being estimated at $225,000,000. In Argentina the volume of industrial production is estimated to be from two to three times the pre-war output. In Chile it is stated that "in almost every branch of industry attempts are being made, usually with success, to produce in the country goods that have hitherto been imported."

The industrial development in Latin America, however, is not likely to affect for a long time to come the exportation of goods that make up the bulk of our export trade, such as machinery, automobiles, moving-picture films, and highly perfected manufactured articles of all kinds.

Rates of Interest

AS a general rule the small American investor expects to obtain a high yield of interest for his investments in Latin American government bonds. Bankers as a rule are not desirous of selling bonds yielding a rate so high that the large investors would regard it with suspicion, and assume that something must be wrong. On the other hand, if the bond bore a low rate

they could not compete with other securities regarded as more trustworthy. A striking example showing the truth of the above statements is the recent loan to El Salvador. A country unknown to the investors of the United States, a one-product country dealing more with England than with the United States, and furthermore a country with an unsatisfactory debt record. To sell the bonds of the American loan, the issuing house arranged for a yield of over 7 per cent p. a. with an unquestionable security behind the loan. Notwithstanding these advantages the sale of the bonds was remarkably slow and market prices reached lower levels than the original offer price. However, once the advantages and security of the loan were fully realized by the investors and after educational efforts were made by the issuing house to make the borrowing country known among investors, the bonds were readily absorbed and the market price is at present above par. In view of the fact that Latin American countries, with the exception of Mexico, are new economic entities with a history and general conditions well known to the American investors and offer no ground for suspicion or mistrust as to the management of their finances, the rate of interest that the prospective investor should expect from loans to the governments of Latin America should be a conservative one. The time is fast approaching when the principal countries of Latin America will demand lower rates of interest than those granted to the European governments, with the possible exception of two or three countries. During the war, the largest portion of European savings had been placed in the manufacture of ammunitions and the like, which promptly disappeared. After the close of the war the saving of money has been discouraged in most of the European countries on account of the depreciation of currencies. With savings on a very reduced scale and demand of funds heavy, principally on account of reconstruction demands, it is not to be wondered that loans to Europe will have to bear a high rate of interest.

A glance at a list showing the yields of the Latin American government issues shows a high yield for a great number of issues. The reason for this situation is first of all that a great number of issues were placed during a period of high money rates and bearing interest in the neighborhood of 7 or 8 per cent. Some of these bonds are selling at present at a premium, showing that to a certain extent they are responding to the easier money rates of the present day. In contrast with these issues are the Latin American bonds which are selling at a discount. Evidently this situation is due to some uncertainty as to political or economic conditions prevailing, or to the fact that in some cases (Brazil) technical if not actual default has taken place. Only in the cases of two Brazilian states and Mexico has actual default of American loans taken place.

(In the August issue of the Journal Mr. Sherwell's discussion of American Investments in Latin American Government Securities will be continued.)

Loans to Latin American Governments

Year	Borrower	Interest Rate	Purpose	Amount	Total per Years	Due	Amount Outstanding	Remarks
1900	State of Jalisco, Mexico	6	Public works	$1,000,000	$1,000,000	1930	$1,000,000	In default
1904	Republic of Cuba	5	To meet Independence War Debt	$35,000,000	35,000,000	1944	20,400,000	
1908	Santo Domingo Custom Administration	...		$20,000,000	20,000,000	1918-15	4,979,300	
1909	Argentina Internal loan	...		$9,730,000		Serially		
1909	Bolivia (Morgan loan)	6	To establish gold monetary system	2,500,000				
1909	Republic of Cuba	4½	Refunding and public works	16,500,000	28,730,000	1949	14,800,000	
1913	Mexican Treasury Bonds	6		$500,000	500,000	1923		In default
1914	Republic of Cuba	5		$10,000,000		1949	8,100,000	
1914	Republic of Panama	5	Railway construction	3,000,000	13,000,000	1944	1,648,000	
1915	City of Valparaiso	6	For public works	$480,000		1940	416,000	
1915	Republic of Panama	5		1,200,000		1919-25	160,000	
1915	Republic of Uruguay	5		1,505,000		1954	1,462,500	
1915	Argentine Treasury Bonds	6		25,000,000		1920		
1915	Argentine Sterling Treasury Bonds	6		5,000,000	33,185,000	1920		
1916	Province of Buenos Aires	6	For refunding purposes	$8,098,250		1926	2,834,387	Secured by a deposit in Westminster Bank, Ltd. of Consol. Loan 5's—1915
1916	City of Sao Paulo, Brazil	6		5,500,000	13,598,250	1919-28		
1917	Bolivian Gold Loan	6	Railway construction	$2,400,000	2,400,000	1940	1,775,000	
1918	Republic of Nicaragua	5	Reconstruction	$3,744,150		Skg. Fund	3,250,900	
1918	Santo Domingo Custom Administration	5		5,000,000	8,744,150	1938	928,000	
1919	City of Sao Paulo, Brazil	6	Refunding	$8,500,000		1952	7,910,000	
1919	State of Santa Catharina, Brazil	6		5,000,000		1927		Retired by the $5,000,000 loan of 1922. Sold to an American firm in 1920. The State had drawn only $1,500,000 when the banking firm went into bankruptcy
1919	State of Rio de Janerio, Brazil	6		10,000,000		1922-31		
1919	City of Sao Paulo, Brazil	6	For refunding purposes	8,500,000	32,000,000	1943	7,910,000	
1920	Bolivian Government	6	For public works	$2,253,000	2,253,000	1934	1,789,000	
1921	Republic of Chile	8	Railroad construction	$24,000,000		1941	19,500,000	
1921	State of Sao Paulo	8	For fiscal purposes	10,000,000		1936	9,961,000	Part of a total of a £6,000,000 loan issued in the U. S., England and Holland
1921	Dominican Republic Custom Administration	8		2,500,000		1925		
1921	Brazilian Government	8	Purchase of materials	50,000,000		1941	42,959,000	
1921	Republic of Uruguay	8		7,500,000		1946	7,480,000	
1921	Government of Mexico	...		2,500,000		1924		
1921	Argentine Government Gold Notes	7		50,00,0000		1923		
1921	Bolivian Government (privately offered)	...		7,000,000				
1921	City of Rio de Janerio, Brazil	8	Public works	12,000,000		1946	10,800,000	
1921	Republic of Chile	8	To meet Treasury deficits	9,500,000		1926	4,721,500	
1921	Bolivian Government	6	Advance	1,000,000		1946		
1921	Republic of Chile	8	Railroad improvement	10,500,000		1946	9,560,000	
1921	Government of Argentina Notes	6		13,500,000		1926		
1921	Bolivian Government	6	Government purposes	1,000,000		1922-35		
1921	State of Rio Grande do Sul, Brazil	8	Refunding and public works	10,000,000		1946	8,800,000	
1921	Republic of Panama	8		500,000	211,500,000	1931	350,000	
1922	Republic of Cuba, 1 year notes	6		$5,000,000		1923		
1922	City of Porto Alegre, Brazil	8	Funding and public works	3,500,000		1961	3,460,000	
1922	Gov. of Uruguay, 1 year Treasury notes	6		2,300,000		1923		
1922	Government of Argentina	7		27,000,000		1927	27,000,000	
1922	City of Sao Paulo, Brazil	8	For public works	4,000,000		1952	3,724,000	
1922	City of Rio de Janeiro, Brazil	6	To refund the external 6% loan of 1919 and others	13,000,000		1947	13,000,000	
1922	Dominican Republic Custom Administration	5½		6,700,000		1942		
1922	Republic of Bolivia	8	Refunding and railroad and highway construction	24,000,000		1947	21,811,500	$5,000,000 additional issued in 1924.
1922	Central Railway of Brazil (Guaranteed loan)	7	Electrification of Central R.R.	25,000,000		1952	23,341,000	Proceeds were not used for the purpose for which loan was floated

Year	Borrower	Interest Rate	Purpose	Amount	Total per Years	Due	Amount Outstanding	Remarks
1922	Chilean internal bonds (10,000,000 pesos)	8	Irrigation works	1,350,000		1950	1,350,000	
1922	City of Montevideo	7	Public works	6,000,000		1952	5,868,000	
1922	State of Santa Catharina, Brazil	8	To retire loan of 1919 and for public works	5,000,000		1947	4,843,028	See 1919 loan
1922	Republic of Peru	8	For fiscal purposes	2,500,000		1932	2,387,475	
1922	Republic of Haiti	6	To refund French loans and other Government purposes	16,000,000		1952	15,425,585	Authorized $40,000,000
1922	Republic of Colombia gold notes	6½	To cancel floating indebtedness	5,000,000		1927	4,245,000	
1922	Republic of Chile	7	Fiscal purposes and public works	18,000,000		1942	18,000,000	
1922	City of Lima, Peru (Sterling of 1911)	5	Public works	250,000		1965	250,000	Total amount, £600,000
1922	Brazilian Sterling Valorization Loan	7½	Coffee valorization	8,800,000		1952	8,800,000	Amount issued, £9,000,000, of which £7,000,000 were offered in London
1922	State of Ceara, Brazil	8	For public works	2,000,000		1947	1,960,000	
1922	Valle del Cauca, Colombia	7	For public works	1,400,000		1932	1,164,000	
1922	Dominican Republic	5½	Refunding and other purposes	3,300,000		1942	3,300,000	Custom Administration bonds
					18),100,000			
1923	Government of Argentina	6	Refunding and other fiscal operations	$55,000,000		1924		
1923	City of Buenos Aires (part of 80,000,000 pesos loan)	6½	To cancel maturing loans and for public works	500,000		1955	500,000	
1923	City of Medellin, Colombia	...		2,500,000				
1923	Republic of Cuba	5½	To meet Government obligations	50,000,000		1953	49,200,000	
1923	State of Maranhao, Brazil	8	Public works	1,500,000		1941	1,452,000	
1923	Government of El Salvador	8	Refunding and reconstruction	6,000,000		1944	5,606,000	
1923	Republic of Panama	5½	Public works	4,500,000		1953	4,500,000	
1923	State of Sergipe, Brazil	8		1,000,000		....		
1923	Republic of Haiti	6	To convert the Railway loan of 1911	2,660,000		1952	2,596,600	
					123,660,000			
1924	Government of Argentina	6	To redeem 6 mo. Treasury notes of 1923	$40,000,000		1957	40,000,000	
1924	Government of Argentina Treasury notes	5½	To redeem $20,000,000 Treasury notes due August, 1924	20,000,000		1925		
1924	City of Buenos Aires, Argentina	6½	For public works	8,490,000		1955	8,490,000	
1924	Government of Argentina	5¼	For general purposes of the Government	10,000,000		1925	10,000,000	
1924	Government of Argentina	4	Purchase of materials for Department of Agriculture	5,000,000		1925		
1924	Government of Argentina	6	To redeem part of the floating debt	30,000,000		1958	30,000,000	
1924	Government of Argentina	5		20,000,000		1925		
1924	Province of Buenos Aires	5½	For service of foreign loans	2,000,000		1925	2,000,000	
1924	Republic of Bolivia	8	Refunding and railroad and highway construction	2,000,000		1947	2,000,000	
1924	Republic of Bolivia	8	Refunding and railroad and hghwy. con.	3,000,000		1947	3,000,000	
1924	City of Bogota, Colombia	8	Refunding and public works	6,000,000		1945	6,000,000	Amount authorized, $10,000,000
1924	Municipality of Medellin, Colombia	8	To redeem 6% dollar notes of 1946	3,000,000		1948	2,969,500	
1924	Dominican Republic	5½		2,500,000		1946		
1924	Republic of Peru	8	Public works	7,000,000		1944	7,000,000	
1924	Government of El Salvador	7	Refunding and public works	6,500,000		1957	6,500,000	
					165,490,000			
1925	Port of Montevideo, Uruguay	6	Port improvements	$1,000,000		1926	....	Made by the National City Bank
1925	City of Santos, Brazil	12	To settle floating indebtedness	1,700,000		1927	$1,700,000	Made by the National City Bank
1925	Government of Argentina	4½	Refunding purposes	25,000,000		1925	25,000,000	
1925	Government of Argentina	6	Refunding purposes	45,000,000		1959	45,000,000	
1925	Province of Cordoba, Argentina	7	Public works	5,943,000		1942	5,943,000	
1925	Province of Santa Fé, Argentina	7	Public works	10,188,000		1942	10,188,000	
1925	State of São Paulo, Brazil	8	Railroad improvements	15,000,000		1950	15,000,000	
1925	Mortgage Bank of Chile (Govt. guaranteed).	6½	To retire internal mortgage bonds	20,000,000		1957	20,000,000	
1925	Province of Buenos Aires, Argentina	5¼	Railroad construction	2,000,000		1926	2,000,000	
1925	City of Barranquilla, Colombia	8	Public works	500,000		1935	500,000	Floated in Chicago
1925	Department of Antioquia, Colombia	7	Refunding French and Floating Debts and Public Improvements	3,000,000		1945	3,000,000	Part of $20,000,000 authorized
1925	Republic of Perú	7½	Refunding and other purposes	7,500,000		1940	7,500,000	
1925	Government of Argentina	6	Refunding of floating debt	29,700,000		1959	29,700,000	
1925	Province of Buenos Aires, Argentina	5¼	Refunding and other purposes	3,600,000		1926	3,600,000	
					170,131,000			
1926	Government of Argentina	6	Refunding of floating debt	$20,000,000		1960	20,000,000	
1926	State of São Paulo, Brazil	7	For waterworks	7,500,000		1956	7,500,000	£2,500,000 of same loan offered in London
1926	Province of Buenos Aires, Argentina	7	Refunding of floating debt	4,200,000		1936	4,200,000	
Apl. 1, 1926	Province of Buenos Aires, Argentina	7	Public works	10,600,000		1952	10,600,000	
					42,300,000			
	GRAND TOTAL				$1,083,591,400			
	Issued partially in the United States							
1899	Republic of Mexico	5	Consolidation	£22,700,000	....	In default	£9,957,260	
1904	Republic of Mexico	4	Refunding	$40,000,000	....	In default	$37,037,500	
1908	Mexican Irrigation Loan	4½	Financing of Irrigation Works	25,000,000	....	In default	25,000,000	
1910	Republic of Mexico	4	Conversion	£11,100,000	....	In default	£10,563,780	
1911	Mexican National Packing Co. (Govt. guar.)	6	Development of live stock industry	$3,000,000	....	In default	$3,000,000	Amount authorized, $5,000,000
1911	Mexican National Packing Co. (Govt. guar.)	6	Development of live stock industry	1,500,000	....	In default	1,500,000	
1913	Republic of Mexico Treasury Bonds	6	Refunding	£6,000,000	....	In default	£6,000,000	
1925	Republic of Costa Rica	5	Refunding	£2,000,000	....	£ 00,000 issued in the United States		

Calvin Coolidge Was a Bank President

By STERLING R. WHITBECK

Treasurer, Nonotuck Savings Bank, Northampton, Mass.

At about the time that Calvin Coolidge entered the practice of law in Northampton, Mass., a new mutual savings bank was established. Mr. Coolidge established his offices in the same building and adjoining those of the Nonotuck Savings Bank. It was only natural that the treasurer of the savings bank should call upon Mr. Coolidge to tend to the legal work of the bank. The bank grew very rapidly and must have kept Mr. Coolidge rather busy searching titles for the real estate mortgages and giving legal advice to the officers.

Until public service required Mr. Coolidge to spend a larger part of his time in Boston, he visited the bank almost daily. The bank commenced business in April, 1899, and at the first meeting of the corporators Mr. Coolidge's name was added to the list of the corporators. At the next annual meeting he filled a vacancy on the board of trustees. This connection he now holds with the bank.

In 1902 he was elected a vice-president of the bank. During his term as Lieutenant-Governor of Massachusetts, the office of the president of the bank was vacated, and Mr. Coolidge was elected to this position, which he filled until 1921, when he tendered his resignation, as his duties in Washington did not permit attendance to the duties incumbent upon the office.

As far as we know, the Nonotuck Savings Bank is the only bank in which Mr. Coolidge has ever held office.

The McFadden Bill Deadlocked in Conference

By THOMAS B. PATON
General Counsel

Failure of House and Senate Conferees to Reach Agreement on Branch Banking Features Prevented Legislation. House Instructed Its Representatives to Insist on Hull Amendments. Accord Reached on Other Provisions of the National Bank Bill.

WHEN Congress adjourned on July 3, the McFadden bill, H.R. 2, was still in conference, the main point of difference being the so-called Hull amendments, which the Senate conferees would not accept, and upon which the House conferees, under mandate from the House, were bound to insist.

The Hull amendments, as our members know, deny to national and member banks in all those states which do not now permit branch banking, the right to hereafter establish even city branches in any state which might hereafter permit branches of state banks. These amendments have the approval of the American Bankers Association and were in the bill as it passed the House, but were eliminated by the Senate.

The design of the bill as it passed the House was to modernize the charter powers of national banks, so as to place them on a more equal footing with state banks, and as part of this design national banks were permitted to have city branches, with certain restrictions as to population in all those states which now permit branch banking. This was the extent of the permission.

Further action upon the bill, if any, now goes over to the December session of Congress.

Progress of Bill

IT may be of interest to our members to recite briefly the progress of the bill and the various steps leading up to the present impasse. The bill was passed by the House on February 4 and by the Senate with amendments on May 13, 1926. The changes made by the Senate Committee on Banking and Currency were detailed in an article in the April Journal (page 667).

Conferees having been appointed, a conference report was on June 15 presented to the House. The report was signed by Congressman McFadden and King (Wingo not signing) and by Senators McLean, Edge and Glass, managers for the House and Senate respectively. This report showed an agreement on everything but the Hull amendments. A separate compromise agreement as a substitute for the Hull amendments was presented to the House on June 17.

Outline of Conference Report

THE following analysis of the provisions agreed upon by the conferees may prove of interest:

1. *Consolidation under Federal Charter.* The House bill provided a direct method of consolidation of a state with a national bank. The Senate made eleven amendments, most of them minor clarifying changes, which were all agreed to. One amendment of importance added the phrase "including the right of succession as trustee, executor or in any other fiduciary capacity" to the provision that the consolidated national bank shall hold and enjoy the same and all rights of property, franchises and interests held and enjoyed by the state banks. Another Senate amendment provided that a state bank may consolidate with a national bank in any part of the state if the state law permitted two state banks to consolidate under the same conditions. The House bill contained no similar provision, and the House conferees receded.

2. *Indeterminate Charters.* National banks now have ninety-nine year charters. H.R. 2 provides for continuing charter rights until voluntary dissolution or receivership or forfeiture for violation or termination by general or special act of Congress. House and Senate bills concurred in this.

3. *Investment Securities.* The provision in the House bill was retained "that the business of buying and selling investment securities shall hereafter be limited to buying and selling without recourse, marketable obligations evidencing indebtedness of any person, co-partnership, association or corporation in the form of bonds, notes and/or debentures, commonly known as investment securities," giving power to the Comptroller to define investment securities and limiting total of any one maker to 25 per cent of capital and surplus, excepting certain Government securities. The Senate conferees receded from the Senate amendment, which struck out the word "hereafter" and initially conferred upon national banks power to buy and sell investment securities, which would have thrown doubt upon the past existence of the power.

4. *Safe Deposit Business.* The provision that in carrying on the safe deposit business, no national bank shall invest in the capital stock of a state safe deposit company more than 15 per cent of capital and surplus, is the same in both bills. There was no disagreement on this.

5. *Real Estate Holdings.* Under present law, real estate purchased by a national bank is restricted to that necessary for its "immediate" accommodation. H.R. 2 takes out the word "immediate," which would enable a national bank to acquire a building site for a new location not adjacent to its present location, and for which it may not have fully completed plans. This provision is in both House and Senate bills.

6. *Lower Capitalization in Outlying Districts.* The House bill permitted national banks in outlying districts of cities having a population in excess of 50,000 to have a capital of not less than $100,000, instead of $200,000, subject to the approval of the Comptroller of the Currency. The Senate bill added a qualification "where the state laws permit the organization of state banks with a capital of $100,000 or less." The House conferees agreed.

7. *Stock Dividends.* The provision of the House bill permitting national banks to pay dividends in stock, enacting into law the existing ruling of the Comptroller of the Currency, was unchanged in the Senate bill and not, therefore, a subject of conference.

8. *Chairman of the Board of Directors.* Likewise the provision in the House bill legalizing position of the chairman of the board of directors of a national bank was unchanged by the Senate.

9. *Loan Limit Provisions.* The provisions of the House bill amending and clarifying Section 5200, United States Revised Statutes, relating to limit of liability of a single borrower, were left unchanged by the Senate except for a slight clarifying amendment to which the House conferees agreed.

10. *Limitation on Total Indebtedness of National Banks.* The provision of the House bill amending Section 5202, U. S. Rev. Stat., by adding an eighth exception, namely, liabilities incurred under Section 202 of Title II of the Federal Farm Loan Act, was unchanged by the Senate. This amendment was, heretofore, enacted in the Agricultural Credits Act of 1923, but through a typographical error was rendered void.

11. *Illegal Certification of Checks.* The provision of the House bill amending Section 5208, U. S. Rev. Stat., was left unchanged by the Senate. It amends the present law, which punishes certification before the amount "shall have been regularly entered to the credit of the drawer upon the books of the bank" by substituting "shall have been regularly deposited in bank by the drawer thereof." This would permit certification between time of deposit and time of book entry.

12. *Verification of Reports to Comptrol-*

(*Continued on page* 59)

An Investment Advisor to a Group of Country Banks

By FRANCIS CRANDALL
Investment Advisor to the Bank of East Aurora; Livingston County Trust Company, Geneseo; National Bank of Westfield; Wyoming County National Bank of Warsaw; Bank of Eden and State Bank of Mayville

How Six New York State Country Banks Solved the Problem of Making Scientific Purchases of Bonds. Experienced Security Man Employed Jointly to Recommend Selling and Buying. Limit of Banks Set and Minimum of $4,000,000 in Bonds Suggested.

A New Idea

TO avoid the fate of buying securities when they were high and selling them when they were low, a group of New York state country bank presidents, feeling that none of them could take enough time to equip himself as an investment specialist and that no one bank was large enough to afford by itself such a man, decided to join together and employ an investment counselor. How this plan works is explained in this article.

THE country bank's bond account has become increasingly important in the past few years. Both relatively and actually it is larger than ten years ago.

This tendency is clearly reflected by a comparison of the total loans and investments made by the country banks in the national banking system.

The comparative figures are as follows:

Dec. 31	Number of Banks	Investments	Total Loans and Investments
1915	7,238	1,309,000,000	4,625,000,000
1920	7,705	2,523,000,000	7,966,000,000
1925	7,644	3,279,000,000	9,527,000,000

Thus, in ten years, investments have increased more than 150 per cent. The ratio of investments to total loans and investments has increased from 28.3 per cent in 1915 to 31.7 per cent in 1920 and to 34.4 per cent at the close of the past year. It is quite apparent that a greater proportion than ever before of the resources of the average country bank is in bonds.

More Funds for Investment

TWO factors are chiefly responsible for this. First, the growth of wealth in the United States since the war has resulted in much larger savings deposits. These deposits, less subject to sudden fluctuation than commercial deposits, can be properly invested in bonds. Secondly, the Federal Reserve System makes it possible for member banks to carry smaller cash reserves and so sets free additional funds for investments.

The number of different bonds available for bank investment has increased greatly in recent years. Utility, industrial and foreign government financing since the Great War has added appreciably to the number of issues. In 1906, the bonds listed on the New York Stock Exchange were made up largely of railroad issues. On January 1, 1926, the total number of railway bond issues (including foreign railways) listed on the New York Stock Exchange was 729 and the total of industrial, utility and foreign government issues listed was 560.

This development demands greater attention to the management of bond accounts. The city institution, with an account of sufficient size, has a department under an officer in charge of investments. The country bank, largely due to the diversity of duties thrust upon its few executives, has found it more difficult to adapt itself to the changed conditions. Statistical and financial services help the country banker considerably by keeping him posted on business conditions. However, this information frequently fails to reach him at the right time.

Advisor to Country Banks

A STEP to meet this condition has been taken by a group of New York State country banks.

The following outline gives briefly the plan followed:

As a preliminary step an informal association of banks was formed. This association includes about half a dozen institutions within a radius of seventy miles which have somewhat similar problems and policies. The banks are not so closely located to each other as to be active competitors.

Group meetings are held monthly at some central point. One or more representatives from each bank attend the meetings. At each meeting some specific subject pertaining to country banks is discussed. Such subjects as bank loans, advertising, bond accounts and new business are typical. These conferences develop a free exchange of ideas on various phases of banking.

An experienced bond man has then been employed by the group to act in an advisory capacity. He is called the Investment Officer. His salary and expenses are prorated among the banks, according to the size of their bond accounts. His office is established at a convenient point and he carries on his work with the members of the group by telephone, wire and letter. He visits each bank from time to time, and meets with the officers or investment committees.

Each bank in the group retains absolute freedom of action in respect to its own bond account. It evolves its own policy in using the services of the Investment Officer. He is obviously a common center for financial and statistical data and, in this connection, his office becomes in a small way a statistical department. Financial services and papers and statistical files covering securities in the different investment accounts are part of the office equipment. A record of bonds held by the group as a whole and, in each separate account, is also kept by his office.

What the Investment Officer Does

WHAT are the duties of this Investment Officer? In the first place he continually analyzes the bond holdings of each bank. This consists of examining annual statements and earning reports and watching security markets. Based on this study, he recommends purchases and sales of bonds to the executive officer or investment committee of the different banks.

Secondly, the Investment Officer in many instances handles the purchase and sale of bonds for the individual bank accounts. The machinery of this work consists of duplicate confirmations from the Investment Officer to the broker and to the bank; and likewise duplicate advices from the broker to the Investment Officer and to the bank. The bank is thus informed on all transactions as they occur and is prepared to make and

(*Continued on page* 46)

Charge for the Services

By O. A. BRAGER
Cashier, First National Bank, Fosston, Minn.

Small Institutions Must Look to Their Checking Account Departments as Sole Remaining Source of Larger Profits. Charge All Checking Accounts Monthly Fee. Equalize Difference by Paying Interest Monthly on Minimum Balances Carried By All.

THE business of banking is again passing through a reconstruction period.

The financing of our industrial institutions is now handled chiefly by the numerous bond and investment firms that have been organized during the past twenty years, and sound investments are being sold to the depositors of country banks through traveling representatives by reliable bond and investment houses to yield returns that exceed the rate of interest sound banks can afford to pay their customers on time certificates of deposit.

Bank profits have been curtailed by legislative enactments and changed economic conditions. We have practically ceased to receive commissions through negotiating farm loans for outside investors, because of the lower rates of interest offered by the governmental agencies.

Formerly country banks derived considerable income from exchange charged in remitting for checks drawn on themselves. The greater number of the banks now charge no exchange for this service. It appears that the public and most of the bankers hold to the opinion that the banks should pay 100 cents on the dollar on checks drawn on and honored by themselves, regardless of whether the check is presented for payment at the counter or through the mail. This view appears to be sound.

So we find that many sources of income have been lost to the banks, or, if not entirely lost, the incomes derived therefrom have been materially reduced.

Operating Costs Go Up

IN the meantime, changed economic conditions have brought about a marked increase in bank operating expenses—just about in the same proportions as these altered conditions have brought about increases in the operating costs in all other lines of business. Decreased earnings and increased operating expenses have combined to annihilate net earnings.

Many bankers have given the problem serious thought. We have scrutinized our expense accounts and curtailed expenses, but have failed to produce adequate earnings out of the banking operations. We have sought new sources of income outside of the functions of banking. But why bolster the earnings of a bank by earnings from a side line? Why not stick to the side line and quit banking if a part of the earnings of the side line are necessary to make up the losses incurred in conducting the banking operations?

The Way Out

SATISFACTORY profits by paying out more interest on deposits seems contradictory. Yet this proposal is made by the author as a means of putting the country bank on a better earning basis. He suggests that every person having a checking account should be charged a monthly fee for this service, as well as five cents for each check drawn. To equalize between the different classes of accounts, he proposes that interest at the rate of 2 per cent monthly be paid on the minimum balances.

We have taken up the study of cost analysis and applied this science to our bank operating costs. The disclosures stagger us. We learn that 50 per cent to 75 per cent of our checking accounts are carried upon the books at a loss; that our checking account department, as a whole, may pay a profit if we happen to be fortunate enough to have a few inactive accounts with substantial balances on which we pay no interest; that the cost of carrying each checking account is 50 cents to $1 a month; that it costs approximately 5 cents to handle each check drawn on ourselves.

Charge Checking Accounts

A SURVEY of the situation discloses that we cannot increase our earnings by demanding higher interest rates; we cannot pare our expenses more. Some of the more profitable lines of banking are now carried on by non-banking financial institutions. It is unthinkable that we must carry on a side line to support our banking operations.

This leads us to the conclusion that we must look to our checking account department as the sole remaining source from which we may derive a profit and supply the banking accommodations to the communities we serve—as well as supply the function of providing a safe repository for the temporarily idle funds deposited with us.

The banks have spent hundreds of thousands of dollars in educating the public to pay by check, and the public has responded to such an extent that the banks are almost swamped with the vast volume of checks which they are now required to handle. Evidently a checking account is found to be a great convenience, maybe a necessity. At any rate, it is a service the patrons ought to pay for, if it is of value to them, and they are probably willing to do it in order to protect their own interests.

"Thou shalt not muzzle the ox that treadeth out the corn" and "A laborer is worthy of his hire."

Our principal competitors in transmitting money from one point to another are the United States Postal Service, which conducts its money order department at near cost, and the express companies. Their charges range from 5 cents for money orders of less than $2.51 to 22 cents for $100.

The remedy: The banks should charge for their services instead of giving them away. Let the service be paid for. Anticipated profit is the magnet that has induced the stockholders to invest in bank stock, and the stockholders have a right to insist that the bank's officers conduct their operations so as to produce net profits. The depositors, too, will undoubtedly have greater confidence in a bank that is prosperous and paying fair dividends, than in those institutions which are skating along on the thin ice of public goodwill.

Few are so dull who cannot grasp the simple fact that their money can never be safe in the hands of an institution which is paying their cash to be able to furnish gratuitous service.

The Way Out

I SUBMIT a formula for making banking profits from the operations of the checking account department:

Charge every checking account, regardless of size, a monthly fee at least equal to the determined unit cost, but not less than 50 cents.

Also charge every account a fee of 5 cents for each check drawn and charged against the account.

Charge for collecting all out of town

(*Continued on page* 46)

Profits In the Oil Industry

By D. RICHARD YOUNG

Prominent Companies Have Made Large Earnings. Another Side of the Picture. Increase in Production and Consumption. Center of Stage Always Shifting In a Great Drama Appealing to the Adventurous. Study Being Made for "Tomorrow's Gasoline".

THE romance of oil is probably the most fascinating story in our history of modern business. Since the industry began some sixty years ago with the discovery of petroleum in Pennsylvania, its growth has been phenomenal, particularly during the last twenty-five years. Today the United States is the leading producer and consumer of petroleum products, and also supplies the requirements of many foreign countries.

This story of the world's oil is truly American. The scenes are laid in this country, which was endowed by Nature with an abundant store of the raw material. The action has been continually shifted as one field after another has been drilled, from Pennsylvania to the Lima—Indiana territory, the mid-continent fields of Oklahoma and Kansas, Texas and Louisiana on the Gulf, the Los Angeles basin in California, the Rocky Mountain wells in Colorado, Salt Creek pool in Wyoming, and in 1925 the "Smackover deep sand reserves" in Arkansas.

The actors in this play are also Americans, some of the principal rôles having been filled by the Rockefellers, Doheny, Bedford, Teagle, Sinclair, Cosden, Marland, Stewart, Archbold, Rogers, Pratt, and Payne. The careers of these men and of the huge cast of their associates who played minor parts illustrate our typical American characteristics and ideals in business—the pioneering spirit, constant scientific research and installation of improved methods, large-scale organization, integration of processes from raw material to finished goods, the will to meet ever-growing demand, the policy of building strongly and conservatively.

If the characters in this drama have been well paid for their efforts, the country is not the loser but the gainer thereby, because of the new wealth represented by this industry they have created. The gamble of drilling for oil captivates the adventuresome type of man, but the capitalist must also be attracted to furnish the high stakes required, and in one well out of every three drilled the money is lost. Petroleum refining ranks among the leading American industries, and the annual earnings of the principal companies engaged in it make a formidable showing indeed. At the same time there are hundreds of other companies about which the public does not hear a great deal, which every year have losses aggregating many millions of dollars.

Three Years' Earnings

FOLLOWING is a tabulation of the earnings for the last three years of the leading American petroleum producers and refiners which have published reports to stockholders and in the newspapers. The figures represent the net profits available for dividends or to carry to surplus, i. e., after all expenses of drilling and operations, abandonment of "dry holes," depletion of oil reserves, amortization of leases, depreciation of equipment, interest charges and provision for taxes have been deducted. Fiscal years end December 31 unless otherwise indicated:

Petroleum Producers and Refiners
Net profits—000 omitted

	1923	1924	1925
Amerada Corporation	1,670	1,200	2,518
Associated Oil Co.	5,951	6,405	10,465
Atlantic Refining Co.	836	4,698	7,167
Barnsdall Corp.	182	1,256	3,094
California Petroleum Corp.	6,104	2,894	6,296
Continental Oil Co.	...	...	4,306
Gulf Oil Corp.	14,323	19,167	35.001
Houston Oil Co.	1,529	1,519	1,350
Humble Oil & Refining Co.	5,058	9,835	22,624
Independent Oil & Gas Co.	810	638	2,561
Marland Oil Co.	1,723	354	14,799
Midcontinent Pet. Corp.	*3,784	1,425	7,001
Ohio Oil Co. (1)	6,085	4,548	9,383
Pan American Pet. & Tr. Co.	20,352	15,185	27,336
Pan American West. Pet. Co.	...	...	4,233
Phillips Petroleum Co.	4,642	7,161	12,330
Prairie Oil & Gas Co. (1)	8,831	10,330	15,802
Producers & Refiners Corp. (3)	2,819	1,197	1,236
Pure Oil Co. (2)	11,676	10,553	12,922
Salt Creek Producers Assn.	6,888	6,262	4,629
Shell Union Oil Corp.	16,859	18,563	20,416
Simms Petroleum Co.	342	1,922	2,637
Sinclair Consol. Oil Corp.	*1,289	*2,149	6,003
Skelly Oil Co.	1,124	22	3,756
South Penn Oil Co.	*939	1,527	2.375
Standard Oil Co. of California	24,442	26,602	30,953
Standard Oil Co. of Indiana	41,538	40,789	52,933
Standard Oil Co. of Kentucky	5,519	5,383	7,188
Standard Oil Co. of New Jersey	56,295	81,017	111,231
Standard Oil Co. of New York	14,963	22,020	41,580
Standard Oil Co. of Ohio (1)	3,143	2,241	3,455
Sun Oil Co.	2,439	2,107	3,602
Texas Co.	8,198	26,458	39,605
Tide Water Oil Co.	2,908	3,898	5.987
Union Oil Co. of California	8,032	10,704	10,513
United Oil Co. (Calif.)	738	1,223	1,652
Vacuum Oil Co.	13,314	17,404	24,230
White Eagle Oil & Ref. Co.	1,348	1,029	1,467

(1) Calculated from increase in surplus account after payment of dividends.
(2) Years ended March 31, 1924-25-26.
(3) Before depletion.
*Deficit.

The Record Production

THE production of crude petroleum in the United States in 1925 again made a new high record—755,852,000 barrels, compared with 713,940,000 in 1924, an increase of 5.9 per cent. Back in 1900 this country's total production was slightly less than 64,000,000 barrels, so that the increase during the first quarter century was over 1000 per cent. The production of 1925 was just double that of as recent a year as 1919.

The increase last year came mainly from the Smackover field in Arkansas. Although this territory has been producing oil for many years, the "deep sand reserves" were discovered only in February, 1925, since which time production increased to over 350,000 barrels daily. The Smackover oil is a heavy grade with asphaltum base, and is used principally for fuel oil. It is not so important a factor in the gasoline situation as are the paraffin-base and mixed-base crudes.

After a few months the flush production in this field subsided, and by last fall the total output for the United States had declined from a peak of 2,346,900 barrels per day to 2,000,000 barrels, and continues to run around this figure at the present time.

Of the United States production last year, California contributed 230,148,000 barrels, or 30.5 per cent; Oklahoma, 176,760,000, or 23.4 per cent, and Texas, 142,618,000, or 18.9 per cent, a total of 72.8 per cent from these three leading states.

World production for the last two years is given in the following table, the 1924 figures being those of the United States Geological Survey, and the 1925 data as estimated by the American Petroleum Institute. It is interesting to note that last year the United States produced 71.6 per cent of the world's total, and Mexico 10.8, leaving only 17.6 per cent for all other countries:

World Crude Oil Production
Barrels of 42 gallons—000 omitted

	1924	%	1925	%
United States	713,940	70.5	764,000	71.6
Mexico	139,497	13.8	115,000	10.8
Russia	45,312	4.5	52,000	4.9
Persia	32,373	3.2	34,665	3.3
Dutch East Indies	20,473	2.0	21,500	2.0
Venezuela	8,754	0.9	20,200	1.9
Roumania	13,303	1.3	16,625	1.6
Peru	7,812	0.8	9,164	0.9
India	8,150	0.8	7,500	0.7
Poland (Galicia)	5,657	0.5	5,770	0.5
Argentina	4,163	0.4	5,422	0.5
Sarawak (British Borneo)	4,669	0.4	4,500	0.4
Trinidad	4,057	0.4	4,417	0.4
Japan	1,959	0.2	2,000	0.2
All others	2,803	0.3	3,457	0.3
Total	1,012,927	100.0	1,066,220	100.0

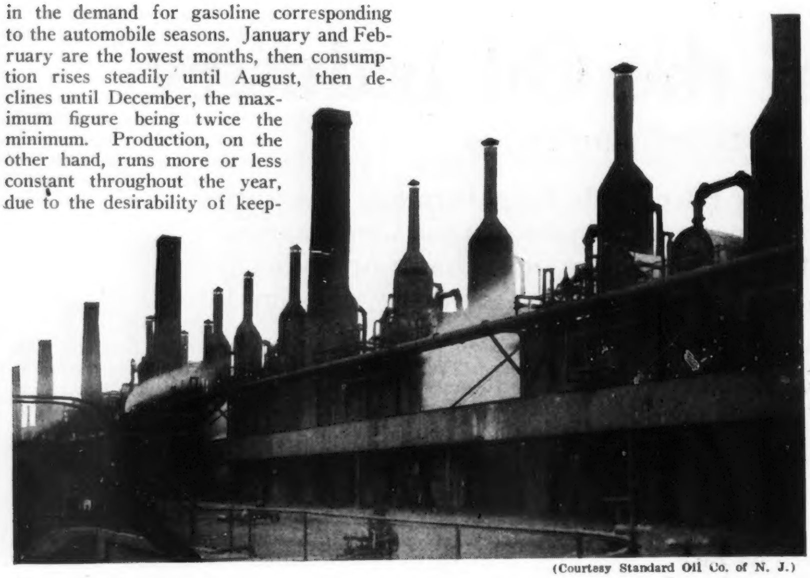
Growth in Gasoline Demand

THE tremendous increase in the number of automobiles and trucks during recent years and the consequent demand for gasoline for fuel are too well known to require any extended comment. The figures have been summarized in the accompanying diagram, which shows the monthly production of gasoline in the United States, the domestic consumption, and stocks on hand.

Last year's production of gasoline was 10,886,127,000 gallons, or an average of 907,177,000 per month, while domestic consumption totaled 9,362,094,000 gallons, or 780,174,000 per month. Exports, which are not shown on the chart, amounted to 1,330,314,000 gallons, or 12.2 per cent of the total production, and are constantly growing.

A striking seasonal fluctuation is found

in the demand for gasoline corresponding to the automobile seasons. January and February are the lowest months, then consumption rises steadily until August, then declines until December, the maximum figure being twice the minimum. Production, on the other hand, runs more or less constant throughout the year, due to the desirability of keeping the "battery" of stills operating at 100 per cent capacity twenty-four hours a day. This results in the accumulation of stocks of gasoline in the hands of refiners and distributors during the winter, while during the summer the consumption curve rises above production and stocks are drawn down.



(Courtesy Standard Oil Co. of N. J.)

A battery of high pressure stills for "cracking" oil to increase its yield of gasoline

On March 31, 1926, gasoline in storage amounted to 1,936,336,000 gallons, the highest figure in history, while during May it was reduced only 10,000,000 gallons. In some quarters serious concern has been expressed over these large stocks.

The domestic consumption, however, is at a higher rate than ever before at this time of the year, running 15 per cent ahead of 1925 and 50 per cent over 1924, so that if stocks in storage be considered in relation to current consumption, they are not much larger relatively than before. The April 30 storage in both years represented 57 days' supply at the April rate. This notwithstanding a late start of the 1926 motoring season due to bad weather, so that with normal consumption and exports this summer the stocks should be greatly reduced by next fall. Certainly the gasoline situation is regarded as stronger than at any time for several years.

Cracking Process Increases Yield of Gasoline

IN the manufacture of the various petroleum products, the first step is to separate the crude petroleum into its constituent parts by the process of distillation. The oil is run into huge stills and its temperature slowly raised, causing methane and ethane gases to escape. These are the lightest of the several hydrocarbon compounds making up crude petroleum, and as the temperature goes up the scale, one after another of the heavier compounds reaches its boiling point and passes off as vapor, to be condensed, purified, and packed into barrels, tins, or tank cars for shipment.

The second class to vaporize are penthane and hexane, light and volatile liquids, used as solvents in the rubber and paint industries and usually called naphthas, after which come gasoline and kerosene. The remaining factors are light paraffin distillate and heavy paraffin distillate, used for lubricating oils and greases, a residue sold for fuel oil, and a black asphalt sold for paving. If this asphalt be heated still further, it decomposes into coke of a very pure grade and is employed for the manufacture of graphite electrodes, for use in electric furnaces.

Mid-continent petroleum will furnish about 4 per cent of gas, 25 per cent of gasoline and naphthas, 15 per cent of kerosene, 40 per cent of gas oil, 12 per cent of paraffin and lubricating oils, and 4 per cent of coke.

Gasoline is the product in chief demand, and in 1912 chemists devised a process known as "cracking" to secure an additional yield of gasoline from the relatively low-value fuel oil by subjecting it to very high temperature and pressure, causing a breaking down of some of its elements into gasoline. There are now a number of different cracking processes in use, which have added a great deal to our gasoline supply and thereby saved the day for the motor car.

In 1916 the average yield of gasoline from crude oil was 19 per cent, which has been increased to over 38 per cent at the present time. Without this improvement, last year's production of gasoline in this country would have required more than the entire world's production of crude oil.

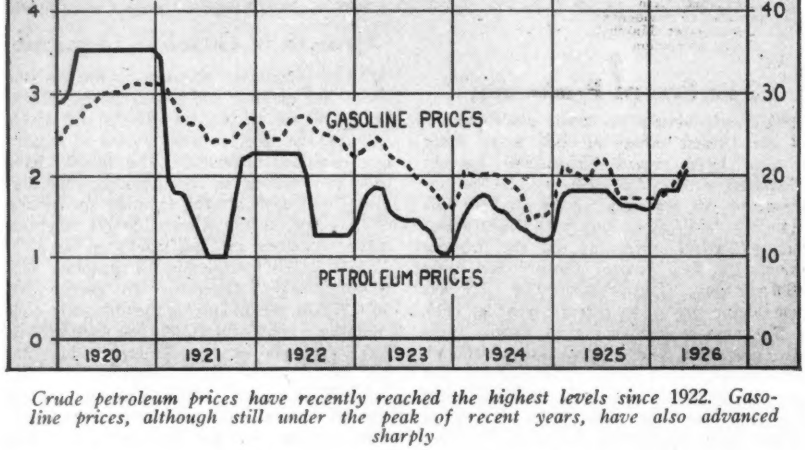
The Standard Oil Company of New Jersey

IN the foregoing table of profits the Standard Oil Company of New Jersey has by far the largest income, and its 1925 annual report published recently gives much fuller details regarding its operations than have been revealed heretofore. This is the original "Standard" oil company, organized in 1882, and in 1911 divided up into thirty-three independent corporations by order of the Supreme Court.

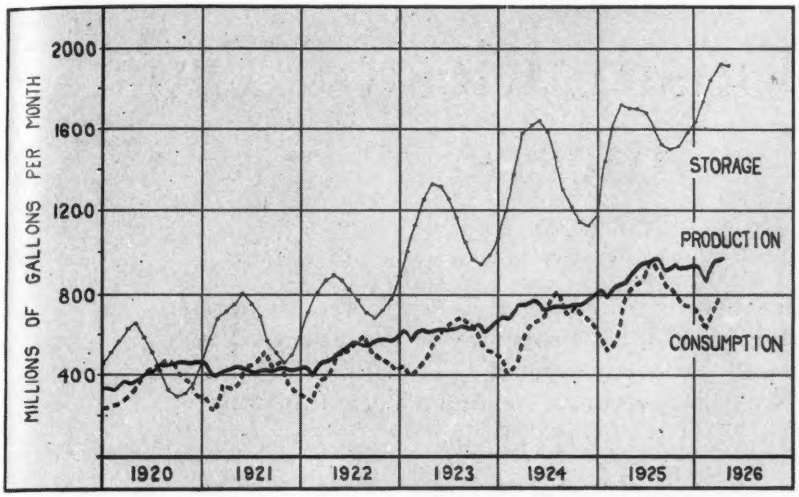
The New Jersey company was left with a daily crude oil production of only 10,000 barrels, but since that time has again expanded rapidly, and last year produced 71,924,683 barrels of crude oil, or 197,000 per day, of which 57 per cent was from domestic territory and 43 per cent foreign.

Yet this production was sufficient to supply only slightly more than half of its refinery requirements, the balance of crude being purchased from other companies. This corporation is a completely integrated unit, having producing wells, pipe lines, tank cars, and steamers for gathering and transportation, "tank farms" for storage, numerous refineries for the production of all classes of petroleum products, and an extensive organization for wholesale and retail distribution and export.

And probably more important in the history of this enterprise than are its physical resources, which on the 1925 balance sheet are carried at $1,369,170,371, are two other features of the organization. One is the



Crude petroleum prices have recently reached the highest levels since 1922. Gasoline prices, although still under the peak of recent years, have also advanced sharply



The production of gasoline, domestic consumption and stocks in storage. Growth during this period has averaged 17 per cent annually

management, noted for its farsightedness in securing production reserves here and abroad, in building refinery equipment to anticipate future demand, yet pursuing financial policies that are always sound and conservative.

The other feature is its geological and research work, which is constantly sending scientists on explorations to all corners of the earth to seek out new oil fields, and employing chemists in its laboratories to devise improved methods of refining and to develop new by-products.

The company had, at the beginning of 1925, outstanding preferred stock of $199,972,900, common stock $507,301,775, and a surplus of $274,509,390, making a total capital investment of $981,784,065. The 1925 net profit of $111,231,355 would represent a return of 11.35 per cent on this figure.

While the gain over previous years is commanding, it is certainly not excessive considering the speculative character of the oil business, the uncertain production of crude petroleum, and the intense competition in the marketing of gasoline. These factors render the business hazardous and justify a higher return on the capital employed than is expected in other basic industries. Moreover, the year 1925 was not an average year, but an exceptionally prosperous one.

There is a wide divergence in the return on capital in different lines. The largest company in the steel industry earned last year a return of 5.16 per cent; the leader in the automobile group netted 23.6 per cent, while many of the large concerns in textile manufacturing and coal mining made nothing at all.

The Standard Oil Company, after paying the regular 7 per cent dividend on its preferred stock and $1 on the common shares (par $25), carried the balance of earnings, amounting to $76,837,261, to surplus account. This stock is owned by over 80,000 registered holders. The preferred shares have for many years been a favorite among careful investors, and over one-third of the common stockholders are employees of the company, who are constantly increasing this partnership interest through a stock-purchase plan.

Not All Companies Profitable

THE romance of the oil industry is not without its elements of pathos and tragedy; they will be found aplenty. Not in the report of the Standard Oil Company of New Jersey, to be sure, nor the other prominent "children" of the Standard group such as Standard of Indiana, Standard of New York, Standard of California, Texas, Vacuum, and Humble Oil (which rather belies its name), nor among such "Independents" as Gulf, Marland, Pure, Pan-American, and Shell Union (affiliated with the Royal Dutch interests in Holland).

Yet every year a large number of the smaller companies, especially those engaged in wildcatting in new territory, have deficits aggregating many millions of dollars. Unfortunately it is not possible to present a complete table for all individual companies for the reason that the smaller and less successful concerns do not issue reports for publication. A condensed picture of the whole industry, however, may be had from an examination of the annual statistics given out by the United States Bureau of Internal Revenue, Income Tax Division.

The latest report available is for the calendar year 1923. There are two classifications relating to the oil industry: the first, under the heading of "Mining," being oil producers, and the second, under "Manufacturing," being refiners of petroleum and its products.

In the year 1923 there were 3742 corporations engaged in the production department reporting to the Revenue Bureau, of which 1072 made profits and 2607 had deficits. Out of every one hundred reporting, therefore, twenty-nine made money but seventy-one lost it.

The corporations reporting income had an aggregate net income of $37,438,000, from which $4,413,000 was reserved for taxes, leaving a balance of $33,025,000 net income available to distribute as dividends or to carry to surplus account. The corporations having no net income reported aggregate deficits of $179,684,000. For every dollar that was made in oil production, therefore, over $5 was lost by somebody else.

The refining department of the business is better organized than is the producing end, and in 1923, out of a total of 542 corporations, there were 213, or 39 per cent, which reported a profit, and 329, or 61 per cent, which reported deficits.

The profitable concerns had an aggregate net income of $146,140,000, on which taxes of $18,152,000 were paid, leaving a balance net income of $127,988,000. The unprofitable refineries had aggregate deficits of $33,422,000.

These official figures, particularly those relating to production, may seem hardly credible to many people, because of the popular impression as to the enormous profits in the oil industry. The 1923 showing is not so good as some earlier years that might have been selected, nor is it so bad as some others. The year 1920 was the most prosperous in recent years up to the present 1926 period.

It is reported that the United States Senate is going to have an investigation made into the oil industry, and the reasons behind the recent rise in gasoline prices. So many investigations have been made of the oil industry that they are becoming a regular annual event. Without attempting to question the wisdom of another inquiry at this time, it might be suggested that anyone who drives a motor car over the crowded highways on a Sunday will see ample evidence of why gasoline prices are going up.

The only surprise is that the increase has not come sooner. The 21,000,000 automobiles in the United States are using up our oil supplies at a prodigious rate, and when this oil is gone no amount of Senate investigation can create another barrel of crude petroleum. What is needed is conservation in the methods of production and use of oil.

Some Recent Mergers

DURING the last year a number of mergers have taken place among important companies. Some of the purposes behind these amalgamations are to obtain adequate supplies of crude petroleum to meet the growing refinery demand, to check the excessive exploitation of new fields, and to secure the usual gains in operating efficiency and stable earnings resulting from large-scale, integrated organization.

In some quarters the opinion has been expressed that this merger tendency may lead to a decrease in competition and a restraint of trade, which would be contrary to the anti-trust laws; but it has been stated on behalf of the companies involved that they are not competitors but merely complement one another's activities.

In April, 1925, the Standard Oil Co. of Indiana acquired control of the Pan-American Petroleum and Transport Co. (operating in Mexico), after the latter had segregated its California properties by the formation of Pan-American Western Petroleum Co. This gave Standard of Indiana a place in the Gulf territory, which was further strengthened by the acquisition of Lago Petroleum Corporation (operating in South America) a short time later.

In March, 1926, the Standard Oil Company of California acquired the Pacific Oil Company after the latter had distributed to its stockholders its holdings of Associated

(*Continued on page* 53)

The Responsibilities of Trust Officers

By ALEXANDER D. KEYES
President, Humboldt Bank, San Francisco

Points to Consider Before Accepting a Trust. Even a Court Decree May Be Void and of No Protection to the Trustee if a Trust Has Not Been Properly Created. Impossible Undertakings Should Not Be Accepted. Conflict Very Injurious.

WHILE the writer has had little experience with trust business from the inside, he has often had contact with it from the outside and has noticed risks taken by the trustee while apparently unconscious of any danger. These observations have led to the consideration of three questions. These questions involve the obligation to determine, first, whether the trust is valid; next, what we are required to do and, lastly, what ought to be done in the performance of the trust.

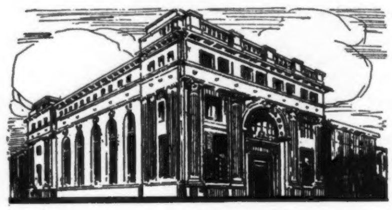
Using the word "trust" in the broad, generic sense, we may say that a trust is brought to us in one of two ways—either by the act of the one that creates the trust or by an order of court. The former is supposed to be based on a valid contract; the latter, on a decree of court with jurisdiction of the case. Hence, the first thing for the trust officer to look into is the validity of the contract that creates the trust or the jurisdiction of the court to render the decree appointing the trustee; for if the contract is not valid, or the court had no jurisdiction, the trust officer may imagine his corporation to be a trustee, an executor or a guardian; it is nothing but a trespasser.

Two Limitations

IF the trust is created by an individual who is of full age, one would suppose that clearly the trust company becomes a trustee; but there are two important limitations of the power of the individual to create a trust, the failure to observe either of which may render it void. The first is found in the community property law of California, and the second in the rule against perpetuities.

The ordinary living trust is in substance a gift. In many cases the income and eventually in nearly all cases the property itself is given to some one. If the property is community property, that is, if it was earned directly or indirectly during marriage, as is generally the case, it can not be given away; that is, the trust can not be created without the wife's written consent and, therefore, the ordinary living trust of that kind of property should never be accepted without that consent.

If such a trust is accepted on the strength of the signature of the husband alone, you may find the principal activities of the trust



are the defense of a lawsuit. You may sell in perfect good faith some of the securities of the trust, and the wife may sue you for conversion, or the purchaser may sue you for breach of the covenant of warranty of title, which a sale implies. It is, therefore, wise to ascertain at the beginning whether the man who creates the trust is married, and if he is, to get his wife's written consent.

Duration of Trust

THERE is another possibility of the trust not being valid. A trust in California must not last beyond the lives of persons who are in existence when the trust is created or a period of twenty-five years. A trust may combine these two limitations of time provided it declares the trust will come to an end within the shorter of the two periods, but it cannot combine the two so as to provide that the trust shall last either for twenty-five years or during the period of lives of specified persons whichever happens to be the longer.

Sometimes, when trusts are complicated, the question whether the trust is not void because it is created to last too long is not as simple as one might think. In fact, in the construction of wills, when this question has arisen, judges have often disagreed. But however difficult the question may be, it is essential, when we accept a trust, to determine whether the trust is valid or void. For if by the terms of the trust agreement the trust is to last beyond the term allowed by law, then no trust has been created, and all of the acts of the trustee are void. The trustee is responsible as a wrongdoer for everything he has done with the property.

Court Decrees Not Always Valid

WHERE the trust is not created by the act of an individual, but by an order of court, we cannot always be sure that the trust had a legal beginning. We are very apt to think that whenever a judge signs an order or a decree, it must be valid, otherwise he would not have signed it. But this is not the case. In some cases the signature of a judge is not worth the paper it is written on. It is not uncommon for judges to sign orders which they have no jurisdiction to make. This lack of jurisdiction is sometimes apparent to everybody; sometimes the question involves great difficulties.

In a recent case in which a trust company was appointed the guardian of an alleged incompetent, the entire proceeding was held void because notice was not given to the non-resident party over whom the guardian was appointed. If the statutes were perfectly clear, and if everybody were careful in the performance of his work, these errors would seldom happen. But we have so much obscurity in the statutes, we have so many faulty forms, there are so many persons through whose hands the proceedings must pass, it is not surprising that occasions arise in which some of the jurisdictional steps are omitted, with the consequence that all of the subsequent proceedings are utterly void. Mistakes of this kind are sometimes made by experienced and able lawyers. How much more reason have we to fear that they will happen on occasions when the proceedings are in the hands of inexperienced or careless attorneys? It is a well-established practice among the trust companies to attract business by promising that the lawyer who brings the business will become the attorney for the estate. This practice from a business point of view is undoubtedly a wise one, but it enhances the danger to which I have just referred and which trust officers are sometimes not likely to suspect.

Something Omitted

THE ordinary trust officer assumes that a lawyer knows his business; whereas the fact is that no lawyer knows all the law and that every lawyer on some occasion in his career is guilty of carelessness. The result is that there are times, even with the ablest and most careful men, when something is omitted in the course of a judicial proceeding that results in an order or decree being made which the court had no jurisdiction to make. In such a case the supposed executor, trustee or guardian does

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The Wealth We Leave Behind

By REUBEN A. LEWIS, JR.

The Average American Leaves an Estate of Less Than $4,000. The Distribution of Wealth Is Becoming Wider. There Are More Large Fortunes. The United States Has More Than 20,000 Millionaires. What Kind of Securities the Average Man Holds.

ALTHOUGH the United States is the wealthiest country in the world and there is a wide diffusion of this wealth among the American people, a Federal inquiry indicates that the average estate of the American upon his death amounts to less than $4,000.

Proceeding on the belief that the relative values of estates of the deceased, as disclosed by the records of the probate courts, would give a true cross-section of the distribution of wealth in this country, the Federal Trade Commission dug into the returns filed in twenty-four counties scattered throughout the United States to see just what the average individual left to those who survived him. To be sure that the sample would be a fair one, the agents examined records of counties in Massachusetts, New Hampshire, the District of Columbia, North Carolina, Georgia, Texas, Oklahoma, Kansas, Idaho, Iowa, Wisconsin and North Dakota. Only the Pacific Coast appears to have been passed over in the inquiry.

To insure averages that would not be lopsided by considering only the estates left by individuals in the rich centers the Federal agents selected nine counties of the rural type, in which there was not a single town of more than 5000. Ten counties of the town type were chosen, where the largest town had a population of from 5000 to 50,000. The other five counties were of the city type, each containing a city of more than 50,000. These were Savannah, Ga.; Topeka, Kans.; Washington, D. C.; Oklahoma City, and Fall River, Mass.

Who Owns America?

THE main object of the inquiry was to discover just how lavishly the touch of Midas had been applied to the country that is the Croesus of the world and to see just how evenly or unevenly these goods are distributed among the 115,000,000 people who live in it. The Federal Trade Commission did not undertake this task on its own initiative. It grew out of the vaporings and thunderings of a few representatives of the so-called progressive wing in the Senate, who wanted to see if real estimates could be marshalled by the government to support the somewhat fantastic claims of the soap-box orators that an infinitesimal fraction of the American people owned nearly all of the wealth and was constantly getting more. The Senate resolution that gave birth to the investigation was sponsored at a time of economic unrest—when the country was feeling the effects of what one particularly articulate Senator referred to as "murderous deflation." It was claimed the rich were getting richer and the poor poorer.

Getting Richer

WEALTH in the United States is becoming more widely distributed but, at the same time, the number of very large fortunes is increasing. These two findings have been made by a governmental inquiry into national wealth and income, based on a study of the relative value of estates of deceased persons. The average of all estates is placed at $3,800, but it is estimated that the average estate, large enough to warrant probating, will range from $10,070 to $16,990 in amount.

It took all the intervening years for the Federal agency to pursue all lines of its inquiry. But, late in May, it shipped a bulky volume of about a thousand typewritten pages up to the Capitol and informed the Senate that the national wealth was about $353,000,000,000 at the end of 1922, and that the national income, which amounted to about $62,000,000,000 for that year had gone up to $70,000,000,000 for 1923. Even the best informed Senators were not prepared to believe the nation was as wealthy as that, because the Census Bureau's estimate for the same year was raised about $32,000,000,000. The Federal Trade Commission hastened to explain that this boost was not due to the discovery of new wealth but to the inclusion of public roads and streets and giving the railroads and some of the public utilities a higher valuation than that used by the other governmental agency.

The same land that was here when Columbus, LaSalle, Ponce de Leon and other old world explorers came a few hundred years ago—rather than the vast industrial plants, the network of railroads or the billions of dollars in gold and silver in our vaults—constitutes the bulk of our wealth, it told the Senate. For real estate, it found, constitutes nearly two-thirds of the total wealth of the country. The remainder—$123,000,000,000—represents our tangible property and moveables. In making its analysis of real estate values, the commission decided that the land itself was worth $122,000,000,000, and the skyscrapers, residences, farm houses, buildings and other improvements on it had a value of about $108,000,000,000.

Examining What Men Leave

THE only way in which the government could determine exactly just how these $353,000,000,000 in wealth were distributed would have been by quizzing all of our hundred-odd million people. Such an undertaking, of course, was impossible. It had to be content with a sample—a rather small sample, at that—of how it had been held in the immediate past. This cross-section did include, however, a record of all the estates probated in these counties for a period of twelve years and covered a total wealth of about $708,000,000. As a rather sad commentary on the saving habits of the average American, the commission reported that, while 43,512 estates were recorded, there were about 141,466 estates in these counties that were worth so little that they were not even probated.

What did the estates filed reveal as to how wealth is distributed?

About 1 per cent of the estimated number of decedents owned about 59 per cent of the estimated wealth.

More than 90 per cent of the wealth was owned by about 13 per cent of the decedents.

The average value for all estates was $3,800—but nine out of every ten had estates amounting to less than this figure. The estates of the very wealthy brought the average up to this level.

About 65 per cent of the total number of probated estates were between $1,000 and $25,000 in size.

The records support the general idea that there is getting to be a more general distribution of wealth, as has been suggested by recent estimates that there are now as many owners of securities as automobiles. In 1912, the estates that ran over $100,000 amounted to 52.6 per cent of the total value of all probated estates examined. In 1923, they amounted to only 45.9 per cent of the total. But while the pendulum seems to be swinging in this direction, there is

still "a rather high degree of concentration" of wealth, the commission asserts.

Here is how wealth in the United States is distributed, as indicated by estates of the decedents in the selected counties.

Size group	No. of Estates	Average Value
Not probated	141,446	$258
Under $500	6,099	$258
$500 to $1,000	4,824	$702
$1,000 to $2,500	8,766	$1,619
$2,500 to $5,000	7,572	$3,557
$5,000 to $10,000	6,446	$7,006
$10,000 to $25,000	5,518	$15,446
$25,000 to $50,000	2,231	$34,930
$50,000 to $100,000	1,105	$68,815
$100,000 to $250,000	651	$149,922
$250,000 to $500,000	179	$337,015
$500,000 to $1,000,000	76	$684,563
Over one million	44	$2,975,296

Decedents who left no estate for probate were presumed to have had as much property as the average of the lowest group, namely $258.

TAKING the government's figures and applying them to the country as a whole, it would be shown that eleven people out of a hundred—whose estates are probated with the courts—will leave less than $500.

About ten will leave from $500 to $1,000.

About twenty will leave from $1,000 to $2,500.

Nearly eighteen will leave from $2,500 to $5,000.

Thus, the statistics based on the estates left by this representative group in 1923 indicate more than half of those whose fortune is large enough to warrant a record being filed will not leave as much as $5,000 to their heirs. These figures do not include the proceeds from life insurance policies, however, so the picture is not quite as dismal as this.

About fifteen out of a hundred will leave estates valued from $5,000 to $10,000.

Fifteen will pass on to their reward and leave from $10,000 to $25,000.

Between five and six will leave estates from $25,000 to $50,000.

The classes beyond this mark are distinctly exclusive, for they are those who are richly endowed with the world's goods.

For instance, in 1912, the Federal Trade Commission found that only 1.9 per cent of the estates covered were between $50,000 and $100,000. Only 1.5 per cent of the total number was in the class from $100,000 to $250,000; 4/10 of 1 per cent between $250,000 and $500,000; 1/10 of 1 per cent from $500,000 to $1,000,000. There was one estate in a thousand where its value entitled its late owner to have earned the distinction of being called a millionaire.

Taking the returns for 1923—or twelve years later—it was found that the percentage of big estates was somewhat larger. Those ranging from $50,000 to $100,000 amounted to 3.3 per cent of the total. The percentage in the group from $100,000 to $250,000 was unchanged; 6/10 of 1 per cent left from a quarter to a half million dollars; 2/10 of 1 per cent had between a half and a million dollars; while 1/10 of 1 per cent were again found in the highest class—more than a million dollars.

The popular belief that there is more wealth among the individuals in the city than in the country is based on the facts.

In the counties having cities of more than 50,000, the average value of the estates probated throughout the twelve year period was $16,990. In counties, having towns of between 5000 and 50,000 population, it was $10,070, and in the rural counties, $13,950. The concentration of probated wealth was also greatest in the counties with large cities.

The holdings of real estate represented about a third of the total value of all the 43,512 estates covered. However, the commission did not take into account any deductions for mortgage debt or indirect ownership through the ownership of mortgages and real estate notes. It found that the proportionate direct holdings of real estate were greater for the estates of medium size than for the very large or very small estates.

In the estates, ranging from $2,500 to $10,000, the average distribution between real estate and personalty was about half and half. Realty represented only 30.6 per cent of the total value of estates in "city" counties and 41.9 per cent in "town" counties. In the rural counties, it represented 50.6 per cent.

IT is said now that there are about 19,000,000 individuals in this country who own stocks or bonds—or just about as many security holders as there are automobile owners.

In analyzing the personalty of these estates, it was found that more than a third consisted of corporate stocks; 14.7 per cent represented bonds; 10.6 per cent real estate notes; 4.7 per cent other notes; 14.7 per cent cash, and 19.9 per cent miscellaneous.

In the estates of larger size, there was a proportionately higher holding of stocks and bonds, while the proportions represented by cash were considerably larger for the smaller estates.

The investing habits of the individuals are revealed as somewhat different. The man in the rural counties does not go in as strongly for stocks as for bonds. The willingness of the resident of the city districts to take a chance on obtaining a greater return from dividends on stocks rather than be content with a fixed rate of interest on bonds is reflected in the contrasting holdings of securities. The proportion of total personalty carried in cash was largest for the estates in town districts. It averaged 32.9 per cent, compared with 12.4 per cent for city districts and 21.2 per cent for rural districts.

An interesting sidelight on the habits of the average well-to-do man as compared with the millionaire was thrown by the commission in a separate study of 540 estates for the years 1918 to 1923, all of which ran over the million-dollar-mark. The total value of the estates left by millionaires in New York City, Chicago and Philadelphia was slightly more than $2,000,000,000.

Whereas the average estate in this sample taken by the government revealed that real estate formed a third of the total, this inquiry showed that only 14.4 per cent of what these millionaires left was in realty. Of the personalty, more than half—or 53.9 per cent—was in the stocks of corporations, 23.8 per cent in bonds, 4.4 per cent in real estate notes, 3.9 per cent in other notes, 3.6 per cent in cash and 10.4 per cent in miscellaneous items. While the secret of the success that lifted these opulent individuals into the select ranks of the millionaires doubtless was largely due to the ability to pick the stocks that cut melons regularly and rose in value, it is no secret that the list of holdings included a few of the worthless "cats" and "dogs" that a less provident individual would have been quite reluctant to admit as having selected.

There is one odd thing about the United States and its millionaires.

While statements are broadcast and hardly open to doubt that this country has the greatest number of individuals who have amassed such an amazing sum, no one seems to know just how many we have.

THIS sample of the distribution of wealth indicates that there is one person in about every 4250 of those who have died, who would have come within this classification: On the basis of this ratio, it could be figured that there are 27,153 millionaires in the United States now.

As can readily be understood, there may be a good bit of probable error in this estimate, which is built up on what is properly called a small cross-section of the distribution of wealth. It can be checked in a way by the income tax returns filed with the United States Treasury. These show that there were 16,634 individuals, who enjoyed a net income of more than $50,000 for the year of 1923. Such an income would represent a 5 per cent yield on a million dollars, but the amount reported is net income, after various deductions are made. And while it is quite true that a number of individuals earn as much as $50,000 a year without having as much as a million dollars, this would probably be offset by persons with property worth a million dollars that does not produce this much income.

Somewhere between these two limits, it appears that the real number of our most successful wealth amassers will be found.

Due to the development of the corporate fiduciary, what men leave to their heirs is of more interest to bankers today than perhaps ever before—These figures, therefore, although not wholly comprehensive—should throw some light on the possibilities of trust service and perhaps furnish a few averages that will prove helpful.

New Twists of Old Frauds

By W. R. MOREHOUSE
Vice-President, Security Trust & Savings Bank, Los Angeles

Finding Suckers for Inferior Stocks Over the Telephone. Bank Stock as a Bait. Losses By Switching Stocks. Endless Chain Scheme to Sell the "Phenomenal Tire". Buying into the Wonderfully Paying Business of Catching Automobile Thieves.

Barnum Wrong!

BARNUM to the contrary, the public does not like to be skinned, according to the author of this article, who tells true stories of how the glib-tongued, high pressure salesmen separated many individuals from their money. Frankly, he states some swindles are so crooked that it is hard to get the straight of them and asserts that "the average individual does not willingly consent to being fleeced out of his savings, nor does he relish being condemned because of a mistake he has made in investing money."

THERE is a saying that, "There is nothing new under the sun." This may be true, but in the field of swindles there certainly are being discovered new ways of improving on old methods, the endless chain variety being no exception.

Here is a skin game which produced several hundred thousand dollars for the sharper who supervised its operation. Like many schemes, it centers around the sale of a new invention—this time a newly patented automobile tire. As is the case with so many inventions of unknown merit, this one is to be marketed direct from factory to consumer.

It is claimed, of course, that it is the finest tire ever offered the public, and naturally it carries an unlimited guarantee as to wear. In fact, it is revolutionary and will in time put other tire manufacturers out of business. It is puncture proof, crack proof and practically needs no attention of any kind. It produces the effect of riding on air and takes the jolts out of the bumpiest of roads.

The "Booster Club"

IN marketing this phenomenal tire, the promoter calls for all persons wishing to make money to join his "Booster Club," paying the promoter a handsome initiation fee. For this fee the "joiner" receives a lapel button, an automobile tail light, advertising literature, and the right to sell these wonderful tires. He is also vested with the authority to enlist other salesmen, which he forms into a Senior Members Club, and each Senior Member in turn organizes another club to be known as Regular Members, and each Regular Member organizes another club to be known as Junior Members, with the result that the chain is susceptible of expansion until there are over 56,000 club members selling this particular tire.

The unfortunate thing about the whole fake scheme is that any person who pays the initiation fee to the promoter can join, regardless of his ability or experience as a salesman; in fact, there is but one qualification, and that is you must have the fee, with the result that hundreds of people, many of them out of work and in need of more income, are led to believe that they can make a success selling this "wonderful" tire; and into the scheme goes their last few dollars, never to be returned in any form.

What are the facts?

In the first place, the factory in which these tires are to be made is a small room, about ten by twelve feet, with equipment having a capacity of not to exceed twelve tires a day. This miniature plant had never produced more than a few sample tires, and no sample tires for a long time, as it had been shut down for a year. Thus with hundreds of so-called salesmen, organized into various groups, and with no tires to sell, naturally the scheme "blows up," with the promoter holding several hundred thousands of dollars representing fees collected, and the salesmen holding worthless receipts for the same money.

An Old Skin Game and How It Works

IN one of the schemes of "catch 'em and skin 'em" the telephone plays an important part, for it is by the use of this medium that those who later fall victims of the swindler are first discovered.

For any swindler to use the telephone and promiscuously call numbers in the hope that he may find persons whom he can interest in investments seems almost hopeless, for it would seem unbelievable that there are persons owning securities or contemplating investment who would even carry on a conversation over the telephone with a stranger. As a matter of fact, the number who can be interested in investments by this method is surprisingly large.

When done on a large scale, the professional swindler will employ as many as a dozen telephone operators. Taking the telephone directory or some stockholders' list, or what is known to the skin-game artist as the "sucker" list, these operators will begin calling numbers and will call all names from A to Z.

Interesting the Victims

THE first question asked is: "Have you been watching the market? Have you noticed that Standard Oil stock is increasing in value, and that economists predict that it will rise much higher? Wouldn't you like to own some of this stock and make a big profit on it?" If the reply indicates that the listener is interested, then the telephone operator announces: "This is Moser & Company, the well-known responsible stock and bond dealer, calling you. Mr. Moser would like to see you make some money on Standard Oil, and he has authorized me to say to you that you can buy it through him on the installment basis, paying a moderate down payment and balance in small monthly payments."

On the other hand, if the person manifests annoyance at being disturbed by the telephone call, he is quickly dispensed with by the apology: "I beg your pardon," and the operator hangs up without disclosing the source of the call.

But those who manifest interest are at once placed on the "sucker" list. In due time a high-pressure, glib-tongued salesman calls on them, providing they cannot be prevailed upon to come to the swindler's office.

Switching the Customers

THIS is how he cleans up on those who are receptive to his advice. They are urged to buy Standard Oil or some other good stock on installments, the swindler assuring them that he will purchase their stock and hold it in his safe until the installment buyer completes his payments. But, of course, this shrewd skin-game artist does not purchase as much as one share of the stock, relying on his ability to switch the customer from Standard Oil

(*Continued on page* 57)

EDITORIAL

Interest Saving Misleading

A NEWSPAPER commenting editorially on the probability of a Federal debt reduction this year of perhaps $835,000,000 says, "What this means is obvious. Every dollar that is cut off saves an interest charge next year, and in all the years to follow of at least four cents. The saving from this year's reduction alone amounts to more than $33,000,000."

But every dollar that is cut off in this manner does not save interest in the manner indicated.

There is the sinking fund and the law making it a cumulative fund, under which provision the Treasurer must pay into the fund each year a sum equal to the amount of interest which has ceased to accrue on the securities which were redeemed by the Treasury during the previous year.

The result of debt reduction therefore is only in the nature of a diversion of funds. Instead of paying the interest charge to the holders of the securities, the Treasury pays an equivalent sum into the sinking fund account. The tax-payer of the hour is no better off—he has to contribute just as much to the sinking fund as he would have had to contribute to the bond interest account.

The initial appropriation for the sinking fund effective July 1, 1920 was $253,404,864. For the present fiscal year, it is about $325,000,000. In 1947, it will amount to approximately $787,000,000. The increase, it will be observed, is automatically progressive.

For example, let us say that the Treasury uses the sinking fund to retire $325,000,000 in government bonds this year. It no longer would have to pay interest of, say, 4 per cent, or $13,000,000 on these redeemed securities. Next year, this interest of $13,000,000 would be paid by the Treasury into the sinking fund—so just as much money will be taken out of the Treasury as if the debt had not been reduced at all.

This will go on until the last outstanding War Bond is paid.

Financial Progress of the New Free State

"THE results of the last financial year may be regarded as eminently satisfactory, despite a deficiency of £782,000," says the Midland Bank Limited of London in its review of the finances of the Irish Free State. "It must be remembered that a very much larger deficit was looked for at the beginning of the year, and that the favorable result has been achieved as a consequence of drastic economies effected during the year. Furthermore, when introducing his budget for 1925-26 Mr. Blythe, the Finance Minister, made the statement that some six millions of the estimated expenditure was of an abnormal and non-recurrent character, more than one-half consisting of payments in respect of property losses compensation, and that this sum, in the government's view, might legitimately be met out of resources other than the proceeds of taxation. The deficit actually resulting from the year's operations was therefore by no means excessive. Inland revenue and the yield from customs were in excess of budget estimates, but excise duties fell somewhat short of the amount forecasted, owing to reductions in the yield on beer and spirits."

"Taking all these items into consideration," continues the review, after discussing various items and conditions, "the debt of the Irish Free State is at the moment commendably small. Indeed, when the published figure of about £4 per head is compared with the British of roughly £170 per head, the figure appears paltry, though it must be borne in mind that Britain has substantial assets in the shape of debts due from other countries and has the good fortune of being richer in point of resources than her sister island."

Is the Pendulum Swinging?

HENRY FORD sees the farming problem from a new angle, and his point of view may do something toward clarifying a discussion which, when it temporarily dies down, so often rests at the point at which it started.

Industrialist that he is, he sees farming as an industry wherein the people who work in it have not yet realized that it is an industry. "The farmer," he says, "wants as much money for his work as the industrialist gets for his. The farmer claims that he works harder than the industrialist, and probably he does, but the world does not pay for sweat, it pays for results."

The farm in other times was a self-sustaining unit, a means by which a family gained its livelihood and, perchance, became independent. There was of necessity work for all of the family and work during the four seasons.

Then dawned the industrial age, and from time to time, slowly and over the years, there was taken away from the farm such tasks as spinning and weaving, the tanning of hides, the making of farm implements; blacksmithing, butchering, packing and canning, and much more besides. And there was given back to the farms no work to take the place of these occupations. Instead of filling the vacant places, many farmers actually swung away from diversified farming into one-crop farming.

So, if we follow out Mr. Ford's analogy of the farm as an industrial plant we have the situation of a complete self-sustaining unit which has gradually lost first one piece of work and then another, and nothing has been given to take its place. It is true that the farmer has through invention been able to gain over the old methods of hand work, and it is true that his market is no longer confined to a nearby town or two, but these things have not sufficed to make him happy.

If farming insists upon the returns of industry, it is well to consider three principles of industry, all based on basic principles of service. These are (1) quantity output, (2) keeping the plant constantly employed, (3) newness and novelty. A very small profit per unit of manufacture on a mammoth output is the rule in many industries, and it also helps to tell how they make their

profits. But, even if he had the requisite ability, not every farmer would attempt to farm on a larger scale than he now does, and even if they could procure the necessary capital and land, many other farmers could not then make a success of a great enterprise with its burden of capital and labor.

As to the second principle: no farmer can, of course, make crops grow out of season. There, however, is not only the possibility of furnishing more employment and continuous employment for more people in the rural regions but there is an actual probability that such a state will come.

The industrial age by which kitchen industries and farm industries were congregated into new places where cities grew up around them did not come into being fully developed and fully grown. The transformation was a gradual process of growth extending over the years. Generations have come and gone since the pendulum started to swing away from the country. Now that the country has been made accessible by roads and motors, and its isolation neutralized by 'phones and radios and many other devices; now that the great cities are forcing outside of their limits one industry after another, why cannot the country take back some of the industries with profit all around. They can and they will.

There are signs of the swing of industry, back—not to the farm kitchens, not necessarily to the confines of single farm units—but back, nevertheless.

Principles of Good Practice

"CAN we not set up in just a few words some principles of good banking practice which have been demonstrated by experience to be sound and workmanlike?" asks Craig B. Hazlewood, the Chicago banker.

Here are ten principles which he sets up, a brief but an all-embracing code which might profitably be printed and kept prominently on the desk of every responsible employee of every bank in the nation:

1. A financial statement for every unsecured loan of $500 or more. 2. Let the banker dictate the credit terms. 3. No excess loans. 4. Let the loans to officers and directors be the best in the bank. 5. Keep some slack in our line; that is, maintain strong secondary reserves in quickly realizable assets. 6. Do not let competition force unprofitable business upon us. 7. Keep our investment in fixed assets such as building, real estate and fixtures, within 50 per cent of our capital and surplus. 8. Do not make capital loans. 9. Discard the idea that our competitor's financial position is of no concern to ourselves. 10. Cooperate with other bankers in the common purpose of making banking a safe and more efficient business.

Is the Sky the Limit?

THERE seems to be no limit to the quantity or the variety of goods that the buying public in America absorbs, but note the word "seems."

Many things are manufactured and offered to the public only to be found to be unacceptable. The public hears much about the successful books, the books that are absorbed in big editions with big profit to author and publisher. There is interest and uplift in such stories and their telling adds to the sales, but there is neither interest nor profit in the stories of the thousands of books which are both failures and losses.

Everyone gets a thrill out of the story of the man who started a little "Cheap John" store in a country city and developed it into a money-making chain extending all over the country, but who will tell the sad story of the multitude of small town failures? That would make a book of a million chapters—with no one to read it.

Everyone hears about the successful invention and the money someone has derived from it, but the patent office is full of useless inventions and in the aggregate mammoth sums are sunk from year to year in manufacturing enterprises in which there has been some defect of product, of marketability or of management.

So while we marvel at the capacity of our own home markets to absorb new things, the market is really a discriminating market. Not only must the offerings, whatever they be, have real merit or appealing novelty or be a striking advance in the saving of time or labor, but they must be properly and impressively presented to the market or the opportunity is lost.

The expression, "the sky is the limit" used in reference to the country's power to absorb can not be quite accurate as long as the gateway to the market is so narrow and is beset with so many obstacles.

"True Prosperity Marked by a Reduction in Prices"

HENRY FORD in collaboration with Samuel Crowther has written another book. Like the product on which the author rose to prominence the book has some stuff in it that will travel far, and will give the reader new mental scenes in whatever journeys he may make through the pages.

In a chapter called "Is There a Limit to Big Business?" Mr. Ford says:

"The people have been taught to fear the great corporation. They fear it because they do not understand it and partly because they are afraid of monopoly. Also, they have a fear of the money power, and confuse big business with big money power. Their thinking is many years behind the times. They are back in the days when a million dollars was a large sum of money, and when it was taken as a fact that no man could make or use a million dollars honestly. Whoever started that saying must have been a man of the narrowest vision, else he would have known that it is much easier to make money honestly than it is to make it dishonestly. The only important point in all this is that people think of business, and especially big business, as something of dollars instead of as something of service. * * *

"There is a craving for a prosperity ordained by law, and it is entirely natural that there should be. For the idea is rather general that the chief curse of life is to work for a living. Thinking men know that work is the salvation of the race, morally, physically, socially. Work does more than get us our living: it gets us our life. But somehow, prosperity—and everyone agrees that it is good to be prosperous—is mixed up with high prices and high wages, and since both prices and wages can apparently (though not actually) be raised by law, it would seem that some law could substitute for work.

"Everyone should know by this time that true prosperity is marked by a reduction of prices, and that this is the only way by which prosperity can be made the normal condition and prevented from being merely spasmodic."

Here is some testimony on the general subject of prices that can not be dismissed with a gesture, for the man who offered it can also offer compelling evidence to support the accuracy of his theory.

Cartoon Comment on the Passing Show

Will He Take His Number?—Darling in the New York Herald Tribune

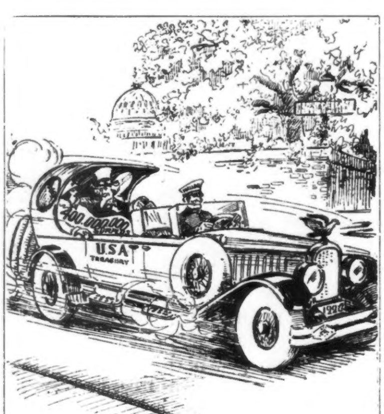
The Send-off and the Reception.—Morris in the Hartford Courant

Indicating Fair Weather.—Williams in the Chicago Herald & Examiner

Where Has He Gone?—Smith for the N. E. A. Service

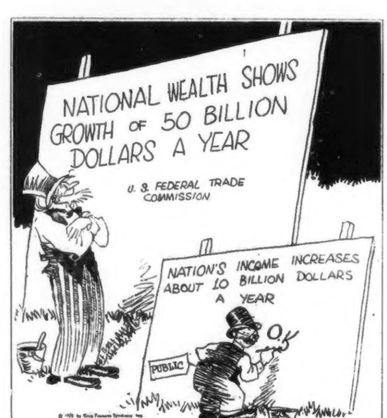
The Sad Tragedy.—Smith in the Sacramento Bee

Hard Hit.—Orr in the Chicago Tribune



Sitting Pretty.—Halliday in the Providence Journal

The Coming Day of Reckoning.—Darling in the St. Louis Globe Democrat



Giving His Approval.—Hall in the Bangor Daily Commercial

Bank Is Owner of Deposited Paper

By THOMAS B. PATON
General Counsel, American Bankers Association

Important Supreme Court Decision Establishing Federal Rule That Upon Deposit of Paper Indorsed and Credited to Depositor's Account, Bank Becomes Owner, Notwithstanding Custom or Agreement to Charge Back in Event of Dishonor.

A DECISION of unusual importance to banks, because it establishes a rule binding upon all Federal courts upon the effect of deposit and credit of paper unrestrictedly indorsed, was handed down June 1 by the Supreme Court of the United States in the case of City of Douglas v. Federal Reserve Bank of Dallas. The court holds that upon the deposit of paper unrestrictedly indorsed and credit of the amount to the depositor's account, the bank becomes owner of the paper notwithstanding a custom or agreement to charge the paper back to the depositor in the event of dishonor.

Bankers have come to believe that in crediting deposited checks to their customers' accounts, the relation of the bank to the customer is that of agent instead of owner and debtor; and not only where the paper is dishonored, but where it has been paid and there is a subsequent default in remittance, that they have the right to charge the amount back to the customer's account. But the Federal rule now established is that the relation of the bank upon deposit is owner and debtor, not agent; therefore, in order that banks protect themselves against the risk of not receiving the proceeds after payment by the drawee, it is necessary that the agency relation be established by some adequate form of agreement. The standard form of collection agreement, drafted in the office of General Counsel and published in the JOURNAL for January, 1925, creates such an agency relation.

In view of the importance of the decision, we publish the full text of the opinion for the information of members. It is as follows:

Facts of Case

THE county of Cochise, Arizona, on Dec. 22, 1920, drew its check on the Central Bank of Willcox, Arizona, in favor of plaintiff in error, hereafter called plaintiff. Plaintiff (the City of Douglas) delivered the check indorsed in blank to the First National Bank of Douglas, Ariz., and that bank credited plaintiff's account and passbook with the amount of the check. The passbook had printed upon its face: "All out-of-town items credited subject to final payment." The Douglas bank indorsed the check, "Pay to the order of the El Paso Branch, Federal Reserve Bank of Dallas," which will be referred to as defendant, and forwarded it to that bank for collection. Defendant forwarded the check, in due time, to the drawee bank at Willcox. The latter debited the drawer's account with the amount of the check, stamped it "paid," later returning it to the drawer, and transmitted to the defendant, in lieu of cash, its own check upon the Bank of Phoenix, in an amount covering this and other items. The last check was dishonored; both the Willcox bank and the Central Bank of Phoenix having failed, the First National Bank of Douglas received no proceeds of the check and charged back the amount of it to the account of plaintiff.

Bank Charged With Negligence

PLAINTIFF brought suit in the District Court for western Texas to recover the amount of the check, on the ground that defendant was negligent in accepting the check of the Willcox bank in payment instead of cash, especially because it was chargeable with notice that the Willcox bank and the Phoenix bank were then insolvent. The case was tried without a jury, and resulted in a judgment for the defendant, 300 Fed. 573, which was affirmed by the Court of Appeals for the Fifth Circuit, 2 F. (2d) 818. The case comes here on writ of error. See Jud. Code, Sections 241, 128 and 24, First (a); Sowell v. Federal Reserve Bank, 268 U. S. 449. Plaintiff assigns as error the holding of the Circuit Court of Appeals that defendant was not in such a relationship with plaintiff as to permit plaintiff to recover for the defendant's negligence.

Rule That Agent Depositary Is Responsible for Correspondent's Negligence

BOTH plaintiff and defendant concede that it is the rule of the Federal courts that a bank which receives commercial paper for collection is not only bound to use due care itself, but is responsible to its customer for a failure to collect, resulting from the negligence or insolvency of any bank to which it transmits the check for collection.

This is the so-called "New York rule," which in effect makes the first bank a guarantor of the solvency and diligence of the correspondents which it employs to effect the collection. Exchange National Bank v. Third National Bank, 112 U. S. 276. And see Federal Reserve Bank v. Malloy, 264 U. S. 160, 164, for a comparison of this rule of liability with the "Massachusetts rule" by which the initial bank is liable only for its failure to exercise due care in the selection of an agent to make the collection. Under the Massachusetts rule, the agent selected becomes the agent of the owner of the paper, who may maintain an action directly against it for the negligent performance of its undertaking. See Federal Reserve Bank v. Malloy, supra, 164. Compare Bank of Washington v. Triplett, 1 Pet. 25, where the undertaking of the initial bank was to transmit paper for collection.

Applicability of Rule

FROM this the defendant argues that under the rule applied in the Federal courts, the First National Bank of Douglas became liable by its contract with plaintiff for the negligence of the defendant; hence that there was no privity of contract between plaintiff and defendant, and no basis for a recovery, even though the defendant was negligent in accepting an exchange check from the Willcox bank. See Federal Reserve Bank v. Malloy, supra, 164.

This was the view taken by the Circuit Court of Appeals, but the plaintiff objects that it is not a necessary corollary of the New York rule applied in Exchange National Bank v. Third National Bank, supra, that one who deposits paper for collection may not proceed against a correspondent selected by the initial bank for that purpose for negligent failure to make the collection, and that neither Exchange National Bank v. Third National Bank, nor Federal Reserve Bank v. Malloy so held. It objects also that in any event the rule is not applicable here because of the stipulation appearing on the face of the passbook, "All out-of-town items credited subject to final payment."

It is said that the effect of this language was to relieve the initial bank, the First National Bank of Douglas, from the liability which would otherwise have resulted under the New York rule, and to make it a mere agent to transmit the paper to defendant for collection, and thus to make applicable the Massachusetts rule. See Federal Reserve Bank v. Malloy, supra. In that case, a local statute relieved the bank receiving paper for collection from any liability except that of due care in selecting a sub-agent for collection and in transmitting the paper to it; and it was held that the owner of the paper might proceed against the sub-agent for negligent failure to collect the paper.

Bank Held Owner Not Agent

IT is not necessary to decide any of these questions here. For when paper is indorsed without restriction by a depositor, and is at once passed to his credit by the bank to which he delivers it, he becomes the creditor of the bank; the bank becomes owner of the paper, and in making the collection is not the agent for the depositor. Burton v. United States, 196 U. S. 283; Union Electric Steel Co. v. Imperial Bank, 286 Fed. 857; General American Tank Car Corp. v. Goree, 296 Fed. 32, 36; In re Ruskay, 5 F. (2d) 143; Scott, Cases on Trusts, p. 64, note, par. 8, pp. 66-67.

"Credited Subject to Final Payment" Does Not Change Relation

Such was the relation here between the plaintiff and the Douglas bank unless it was altered by the words printed on the passbook to the effect that out of town items were credited "subject to final payment." The meaning of this language, as the cashier of the Douglas bank testified, and as the court below held, was that if the check was not paid on presentation, it was to be charged back to plaintiff's account. The check was paid and the drawer and indorsers discharged. Malloy v. Federal Reserve Bank, 281 Fed. 997; Federal Reserve Bank v. Malloy, 264 U. S. 160, 166; Nineteenth Ward Bank v. Weymouth Bank, 184 Mass. 49; Winchester Milling Co. v. Bank of Winchester, 120 Tenn. 225. Without these words the relationship between the plaintiff and the bank was that of indorser and indorsee; and their use here did not vary the legal rights and liabilities incident to that relationship, unless it dispensed with notice of dishonor to the depositor. As was said by the court in Burton v. United States, supra, 297:

"The testimony . . . as to the custom of the bank when a check was not paid, of charging it up against the depositor's account, did not in the least vary the legal effect of the transaction; it was simply a method pursued by the bank of exacting payment from the indorser of the check, and nothing more. There was nothing whatever in the evidence showing any agreement or understanding as to the effect of the transaction between the parties—the defendant and the bank—making it other than such as the law would imply from the facts already stated."

While there is not entire uniformity of opinion, the weight of authority supports the view that upon the deposit of paper unrestrictedly indorsed, and credit of the amount to the depositor's account, the bank becomes the owner of the paper; notwithstanding a custom or agreement to charge the paper back to the depositor in the event of dishonor. Burton v. United States, supra; Brusegaard v. Ueland, 72 Minn. 283; National Bank of Commerce v. Bossemeyer, 101 Neb. 96, 102; Walker & Brock v. Ranlett Co., 89 Vt. 71; Aebi v. Bank of Evansville, 124 Wis. 73. See Scott v. McIntyre Co., 92 Kan. 503; Vickers v. Machinery Warehouse & Sales Co., 111 Wash. 776. But see Implement Co. v. Bank, 128 Tenn. 320; Packing Co. v. Davis, 118 N. C. 548.

No Relation Between Depositor and Correspondent

PLAINTIFF having thus surrendered its rights in the paper, only rights arising out of its contract with the initial bank remained. If those rights were affected by the act or omission of defendant, they were affected only because that contract so stipulated. Defendant's duties arose out of its contract with the initial bank or out of its relation to that bank as owner of the paper. Hence, there was no relationship between plaintiff and defendant which could be made the basis of recovery for defendant's want of diligence.

Collection of the Educational Foundation

LEWIS E. PIERSON, of New York, Chairman of the American Bankers Association's Committee in charge of the collection of the Association's Educational Foundation of $500,000, announces that the cash now in hand amounts to more than half of the amount of the foundation. The Educational Foundation, it will be recalled, was established at the last convention to commemorate the fiftieth anniversary of the association.

Fourteen states, the District of Columbia and the Hawaiian Islands have completed their assigned quotas, nine of these having overpaid the designated amounts.

Those which have overpaid are Arkansas, Florida, Hawaiian Islands, Maryland, Nevada, New Jersey, New Mexico, Virginia, and Washington, while those which have completed their quotas are Alabama, Connecticut, District of Columbia, Kansas, Minnesota, Rhode Island and Utah. In the majority of the remaining states, which include the larger and more populous where considerable sums are involved in the quotas, high percentages toward completion of their assignments have been recorded. In all cases it is reported that the obligations will be easily met in full by the time the collection period ends.

Meanwhile plans for application of the funds to providing for college scholarships and research in economics are being worked out under the direction of John H. Puelicher, Chairman of the Board of Trustees of the Educational Foundation. In connection with the present rapid accumulation of the money Mr. Puelicher said:

"The conditions for the use of these funds are now being given careful consideration. The experience of trustees of other foundations is being drawn upon. The advice of educators in regard to kind and character of scholarships is being consulted, and by the time the subscribed amount is delivered to the trustees the plans for dealing with it will be ready. It is self-evident that no mistake must be made in dealing with this foundation. It should be so managed that there will be continually attracted further and greater sums to be used for the benefit of banking and economic research.

"As a beginning $500,000 is a sizable amount, but one must think of it only as a beginning. It should not be more than a year or two before the benefits of this foundation find themselves into every university and college of America. There should be at least two scholarships in every state university and at least one scholarship in every college if such college is maintaining a department of banking and economics. Whether these are to be made gift scholarships or loan scholarships the wisdom of the future must determine.

"In addition to this, we should start out with at least one foreign fellowship and in the course of a few years bring this up to five or ten foreign fellowships, so that America will be sending her students of banking and economics to the colleges of those countries where world banking and world economics have been a matter of not recent investigation but of years of experience. This may sound like an ambitious program, but it is only in this way that we may hope to keep American banking thought abreast of the requirements of America's position in world finance."

New Head of Farm Loan Bureau

Albert C. Williams

PRESIDENT COOLIDGE has designated Mr. Williams to serve as Commissioner of the Federal Farm Loan Bureau. In this capacity, he will be the head of the Federal system, which supervises the operations of the Intermediate Credit Banks, the Federal land banks and other agencies which extend credits to the farmers.

Mr. Williams' term as a member of the Bureau does not expire until 1929. He is a native of Texas. He succeeds Robert A. Cooper of South Carolina.

Why Farm Relief Failed

By FRANKLIN W. FORT
Member, United States House of Representatives from New Jersey

Congress Could Not See How the Haugen Bill Would Solve the Farm Problem as it Would Lead to a Greater Overproduction. Constitutionality of Equalization Fee Doubted. Principles Used by Manufacturers in Dumping Surplus Are Different.

UNTIL after the Civil War, farmers in the United States east of the Mississippi River raised practically all of the staple foodstuffs of America. Then the great plains from the river to the Rockies were settled and, on their fertile virgin acres of free-granted land, wheat, corn and cattle could be raised so abundantly and so cheaply that the farmer of the East could not compete with the farmer of the new states. And until, in the last twenty years, the eastern farmer turned his labor into vegetable and fruit growing and dairying, his annual return was little or nothing; thousands left the farm; and good farms were a drug on the market.

Today the farmers of the Middle West are passing through a similar experience. The opening of the great fertile virgin lands of Canada, Australia and the Argentine has provided the world with new sources of supply of staple foods at much lower production costs than ours.

This really began before the recent war, but was not appreciated fully because farm lands in America were still rising in price and were still largely unmortgaged and in the hands of original settlers, whose paper profits through increased values made their lack of annual return on those values unnoticed. But, as is always the case with a rising market—whether in farm or city land, securities or commodities—this rising market culminated in speculative excesses, greatly and in large measure excusably induced by the inflation of commodity prices during the war. Due partly to this speculation and partly to the death or retirement of the original owners, the lands, now largely mortgaged, have passed into the hands of new owners, who cannot get anything like a fair return upon cost at current commodity prices and who face a resulting decline in land values instead of the rise enjoyed by their predecessors. With heavy interest charges and increasing taxes, their situation constitutes the gravest problem of the post-war deflation period, and is one which threatens not only themselves, but the bankers and merchants throughout the section.

Led Fight

THE opening speech against the McNary-Haugen bill, when this measure came before the House of Representatives for debate, was made by the author. He took a leading part in Congress in exposing the economic unsoundness of the proposed farm relief bill. In this article, Mr. Fort tells why Congress found itself unable to enact the measure that was so strongly championed by farm organizations. A lawyer by training, Mr. Fort is president of the Lincoln National Bank of Newark, N. J.

An Unformulated Fear

IT is not merely a question of prosperity or adversity—it involves the entire economic status of the agricultural population in the section affected. Traditionally in America, the farmer has been regarded as the real independent home-owning backbone of the nation who, while his income might vary from year to year, nevertheless was sure of a roof over his head, three square meals a day, and some estate for his widow and children. He worked with his hands, but, unlike other labor, he worked for himself and owned his workshop and his home. Economically and socially, his status was never below what in Europe is called middle class. As it has seemed to me in studying the spokesmen for the farmers in Washington, the great urge toward drastic legislative remedies is chiefly due, not to the present adversity alone, but to the perhaps unformulated fear that its continuance means a definite change in this status—a definite lowering of the American farmer to the economic and social level of the European peasant.

This has been emphasized in their minds by the contemporaneous lifting of the financial position and standard of living both of American labor and of the "white-collar" workers of the city. They would be more than human if they dissociated their adversity from the simultaneous prosperity of city people. And when, as they can clearly see, there is a direct connection between such legislation as the protective tariff, the restriction of immigration, the Adamson and eight-hour laws and the like, and the prosperity of the other groups, it is both natural and proper that they should turn their thoughts toward legislation as the cure for their troubles.

Toward the finding of a real cure, the rest of the nation has the inducement not only of friendly sympathy, but of selfish interest. For the active farmers of the United States number approximately 6,500,000. Their total purchasing power is enormous. The addition of only $100 to the annual income of each farmer would mean a total new spending power of $650,000,000. By the time this had passed through the channels of trade, its stimulation of every industry would be tremendous. And the farmer is a good spender—when he has the money.

The Export Surplus Menace

WHEN the Middle West realized that its problem was both serious and, unless radically aided, probably permanent, it studied earnestly to find the cause. This, it decided, was chiefly the fact that it always raises an export surplus—an excess above our domestic consumption—especially in wheat and pork. The presence of this surplus in our market, through its mere statistical bulk and through the resulting pressure to sell at any price above the export value, forces down the American market price, despite ample tariff duties, practically to the export price level. Consequently the farmer buys in a tariff protected market, but sells in one where the tariff is ineffective.

On studying the way other business handled like situations, the farmer found that the manufacturers had, first, become strongly organized, and, second, that they sold their excess production abroad for what it would bring—"dumped" it, as the phrase is—thus preventing its pressure on the domestic market price.

So, without sufficient analysis of the difference between manufacturing and farming, the farm leaders set to work to adapt "Big Business" methods to agriculture. They were met with two serious problems immediately. The first was in organizing. It is one thing for a group of fifteen or fifty stockholders or officers to form a corporation or an export trade association, and quite another to induce the three or four million wheat farmers to form a voluntary organization. Clearly, this could be accomplished only with government aid, if not

(*Continued on page* 58)

Missouri Bankers Adopt a Code

A Standard of Rights Governing the Profession of Banking is Drafted. Broad Information, Loyal Citizenship and Unquestioned Honor Required. Bank Should Be a One-Price Institution. Loans Should Be Placed So As To Build Up Community.

A Guide

THE profession of banking has discussed for several years the desirability of a code of ethics to provide a written guide for the conduct of the banking business. Although it is recognized that conditions vary in different communities, the Missouri Bankers Association has formulated a standard of rights that it thinks would apply to banking everywhere. It does not seek to lay down anything new but rather to bring together and affirm the highest, accepted standards in this quasi-public business.

BANKING is a quasi-public business, necessary to every industry, trade and profession. It, therefore, requires of those who practice it information of increasingly wide scope, loyal citizenship and unquestioned honor. It is a profession, and the Missouri Bankers Association has here formulated the standards of right that should govern bankers:

1. The banker will obey all the laws of his city, his state, and his county.

2. Before undertaking the responsibility of bank management, he will qualify himself by education—not necessarily in school or college. He will acquire a knowledge of commercial law, credits, sound banking practice, economics and the history of banking and finance. He will use what he knows, and will not, in the hope of extra profit, depart from what he knows to be sound principle and practice. That way danger lies. As a banker, he will keep up with the increasing body of information on these subjects and with the continual improvements in practice. He will thus be able to give to the public information it needs upon what is sound and what unsound in banking—what the limits of a bank's usefulness are. He will be able from time to time to take part in the preparation and enactment of legislation affecting banking and public finance, and will be equipped to oppose effectually legislation that would be unjust or otherwise harmful to the banks or the public.

3. The banker will not only be courteous to his associates and to the public, but considerate and friendly, realizing that in such atmosphere the best business is done and that friendship itself is the largest part of happiness.

4. The banker will never take a commission, nor a profit in any other form, for lending the money of his bank to anyone, for to do so warps judgment and so introduces a new element of danger. Neither will the banker, without the full knowledge and permission of his board of directors, use his time in any other occupation or "side line."

5. The banker will not himself borrow money of his bank nor lend to any business in which he is himself substantially interested, without the full knowledge and consent of the board of directors, recorded in its minutes.

6. But the banker will so place his loans as to build up his community, not capitalizing any enterprise by his loans, but providing facilities for the current, seasonal needs of the farmers and other sound business men of his town and the country roundabout. He will not permit a high rate of interest to become the inducement for the purchase or discount of paper otherwise objectionable, or growing out of a subject matter for which he would not have approved a loan in the first instance. Never will he lend money to facilitate any illegal business.

He will consider each proposed loan carefully before it is made, asking among others three certain questions of the borrower and a fourth of himself:

a. What is the borrower going to use the money for?

b. Where is the money coming from to pay the loan off?

c. When is it coming?

d. Is the loan attractive?

The banker owes it as a duty to his stockholders to operate the bank profitably, and they will have no complaint if he makes his loans under such precautions.

7. A bank will be a one-price establishment, giving equal service at an equal charge, the respective values of accounts considered. Banking profits will in the future involve the elimination of almost all gratuitous service, will depend less upon the spread in interest rates and more upon service measured and charged for.

8. The banker will sell only such securities as he would be willing himself to buy. He will frequently be asked to recommend men or securities, orally or by letter. If he has any misgiving, he will indicate it in whatever he may write or say. The experienced banker will never address a letter "To whom it may concern." He will address his letters of introduction specifically, and will be exceedingly careful whom he gives them to, because such letters are so often used improperly as advertising or to effect frauds and swindles. A few bankers, so-called, have been known to profit by helping to foist worthless securities upon their customers and neighbors. Such bankers should be ostracized by decent men.

9. The banker will be absolutely frank with the banking departments of the state and nation, and will establish cordial relations with them. Examiners and other department officers can sometimes perceive bad tendencies in a bank before the banker notices them himself. From their knowledge of general conditions and particular cases, they can give important advice, which will be helpful in proportion as it is given and received in friendship.

10. The banker will be a leader of his subordinates, not a dictator to them. He will encourage their initiative, say an appreciative word about good work, advance young men and women for merit, insist that they observe this code of ethics and help them with their banking education. He will tell them books to read about banking and related topics. He will call their attention to the courses offered by the American Institute of Banking and other organizations. He will think his time perhaps best employed when he is imparting information personally out of his own experience, and so he will educate by his own practice and precept. So his employees shall feel that their interests in the success of the business are no less than his, and many of them shall grow to be able bankers themselves.

Particularly will the banker watch over the health of his subordinates, the light they work by, the ventilation and all the working conditions.

11. Believing in his own bank, the real banker is not jealous of his competitors. He maintains fair charges for money and service; he interchanges with competitors essential information about credits and improvements in bank systems and practice. He never disparages a competitor, nor imitates his trade marks, insignia or other advertising matter. He does not ask a competitor for credit information and then make that information the basis for soliciting his competitor's customers.

12. Conducting his business on these principles, the banker will never do anyone a conscious wrong. For it was said of old: "Therefore, all things whatsoever ye would that men should do unto you, do ye even so to them."

The Safety and the Service of the Call Loan

By JASON WESTERFIELD

What Happens Between the Receipt of the Out-of-Town Bank's Telegram to Loan and the Telegram to Call the Loan. Reason Why There Are No Losses. Where Critics Confuse Cause and Effect. Reports Show Country Loans Exceed City Loans.

IN the call loan market, in greater measure than anywhere else, are fulfilled the lending bankers' requirements of safety, liquidity and convenience. It is a fair statement that the increasing popularity enjoyed by these security collateral loans is due to the growing recognition that no safer investment exists. There is not a single instance of a loss suffered by lenders within the memory of those engaged in the handling of this type of loan.

The reason for this high factor of safety is not far to seek. It is found in the eternal vigilance of the city banks' loan departments, in the first instance, insisting that the borrower at all times collateral the loan with listed securities, the current market value of which exceeds the amount of the loan by 25 per cent. The second factor of safety is found in the liquid character of the collateral. The fight which the exchange has waged for many years and is now waging for more corporate publicity; the progressive measures it has enacted over a century of time for safeguarding the rights of investors; the wide advertising given to the values of listed securities by current quotations, available on the tape and in newspapers throughout the land, have together brought countless thousands of investors to the market place. When these things are borne in mind we have a better conception of the unsurpassed negotiability rendered the huge amount of securities listed on the exchange.

Between Two Telegrams

I SHALL, however, attempt to describe a phase of the subject of "street loans" which is perhaps not so familiar, and that is the handling and the employment of these bank funds from the time when they are in the possession of a Wall Street correspondent bank which has instructions to lend them on call, until instructions are telegraphed to call the loan.

While the handling of loans for their correspondents may vary in minor details among the Wall Street commercial banks, there will be found a general conformity with the practice which I shall describe. In one particular at least they are in complete accord, and that is in their appreciation of comfortable balances maintained by customers to "establish borrowing equity."

As far as the out-of-town bank is concerned, an investment in a call loan secured by New York Stock Exchange collateral merely involves telegraphic instructions to a city correspondent to lend a specific sum on call, followed at some later date by instructions to call the loan. That is all. But the interval between the two telegrams is crowded with responsibility, detail and eternal vigilance on the part of the New York city correspondent. Among other things they must see that the securities pledged to secure the loan are sufficient in amount and satisfactory in character; they must be careful not to lend more than the legal 10 per cent of the lender's capital and surplus to one firm or corporation; they must constantly follow the course of the prices on the exchange in maintaining the value of the securities pledged at not less than 125 per cent of the face value of the loan; they must make changes in the collateral security from time to time, accepting satisfactory securities in place of those withdrawn by the borrower according to his needs, and, finally, they must from day to day mark the interest to the renewal rate during the life of the loan.

The Examination

SOME idea of the expertness required in fully safeguarding the interests of the out-of-town lending bank will appear from a consideration of the several services just mentioned. Thus on the completion of a loan and delivery by the New York Stock Exchange firm of the envelope containing the collateral, each certificate is examined for genuineness, signatures and negotiability. At the same time judgment is passed on the general character of the collateral, implying a knowledge of the condition of several hundred corporations whose securities are listed on the exchange.

In addition to the loan department's examination of the loan collateral, the out-of-town lender has another check in the rules of the exchange with respect to negotiability and also with respect to the character of the borrower. The rules for delivery of the New York Stock Exchange require the indorsement of a member firm upon transferable certificates and that such certificates shall be acceptable for transfer to the name of the new purchaser at the transfer offices. Thus the lending bank knows that the collateral security is readily negotiable in the event that liquidation becomes necessary. On one other point, and a very important one from his standpoint, the lender can be reassured and that is, with respect to the character of the borrower. Experience and familiarity with stock exchange standards has led the lending banks to take character for granted. They well know that self preservation alone requires the exchange to make patient and painstaking investigation of the character of candidates before a new member is enrolled. The supreme necessity of making as sure of the honesty and integrity of members as is humanly possible, will appear when it is realized that every transaction made on the floor of the exchange, aggregating on an average over one hundred million dollars a day, is a word of mouth contract—never a scratch of pencil to paper is exchanged. I have never heard of an attempt to welch on a contract so made.

The Legal Limitation

THE legal limitation, which prohibits national banks from lending more than 10 per cent of their capital and surplus to any person, company, corporation or firm, imposes another responsibility on the loan department of the city bank.

Then again, at least one substitution (sometimes two or three) is made every day in every loan necessitating the surrender of the withdrawn collateral, the examination of acceptable substituted securities and appropriate entries.

There is another important service or accommodation which city banks render their out-of-town correspondents which I believe is not generally known and which goes to swell the mass of detail of the loan department. Stock exchange loans are usually made in multiples of $100,000. City banks, then, in order to put out $25,000, or any fraction of the unit, make a practice of combining several sums aggregating $100,000. These are termed participating loans and frequently are contributed to by the bank itself in order to make up the round amount. The city bank's readiness to accommodate by participating in these combined loans makes it possible for their out-of-town correspondents to liquidate on any business day without exception. I lay emphasis on this because loans are neither made nor paid on Saturday and it is conceivable that inability to realize on an investment in an emergency on a Saturday might result in serious inconvenience, if it were not for the willingness of the New York bank to release its correspondents' funds by assuming their loan participations.

All lending banks in the financial district arrange with one or more stock exchange member firms to handle their call

(Continued on page 54)

Old Persia Grown Young

By A. C. MILLSPAUGH
Administrator General of the Finances of Persia

Seemingly Predestined to Be One of the World's Financial Incurables, Persia Is Getting On Her Feet. American Advisors Assist In Bringing About a New Order. Revenues Go Up 50 Per Cent. Budget Is Balanced. Nation Is Becoming Unified.

UNTIL a few years ago, Persia had acquired and seemed predestined to keep its reputation as one of the world's financial incurables. Known historically to all American school children as the land of Cyrus, Darius and Xerxes, the world-empire that Alexander overran but failed to assimilate and which Crassus with his Roman legions could never conquer, Persia—surviving today as one of the world's most ancient nations—was known economically and financially chiefly in those European circles which were concerned with her exploitation.

The American public with its meager information was disposed to picture Persia sitting ragged, incompetent, and hopeless at the back door of Russia or Great Britain, begging for subsidies and mortgaging in return the resources which it was itself helpless to husband—all to keep itself tottering along for a few more inglorious years until it reached the moment of inevitable dissolution. No one had confidence in Persia's inherent powers of recuperation. In the light of the Anglo-Russian Treaty of 1917 creating spheres of special interest in Persia, few believed that the country could escape dismemberment. So far as America was concerned, the land of Iran did not figure practically in terrestrial geography.

Sentimentally, Persia appealed to Americans. It was a weak country coping with two shrewd and powerful empires, which seemed to be playing their cat-and-mouse game of economic penetration and apparently bent on ultimate absorption. In 1906, Persia had abolished absolutism and had established a constitution and a Parliament, and, building on this foundation, was making genuine efforts to achieve self-government. Shuster had come in 1911, had fought valiantly against Persian reaction and foreign domination, and, after a half-year, had departed under pressure of a Russian ultimatum, leaving behind him the despair of Persian patriots.

The Turning Point

DURING the Great War, Persia's neutrality was violated; the country was overrun by Turkish, Russian and British armies and German spies; her villages were devastated; her Government was torn into impotent factions; her revenues were paralyzed and her trade ruined. Denied reparations and even a hearing at the Paris Peace Conference, she was left with her pre-war problems infinitely aggravated to work out her own salvation as best she might. The Anglo-Persian Treaty of 1919, under which Great Britain was to lend her money as well as financial, economic and military experts, the Persian Parliament refused to ratify on the ground that it was prejudical to the country's sovereignty. Persia was tenacious of those characteristics which invoke sentimental praise; but her situation seemed more hopeless than ever.

Then strangely enough, Persia's affairs began to mend.

Foreign forces were withdrawn from the country. The Anglo-Russian Treaty of 1907 had become one of the happy casualties of the Great War. In 1921, the Soviet Government concluded with Persia a magnanimous treaty, repudiating forever the imperialistic designs and methods of the Czars, cancelling Persia's debt to Russia, giving to the Persian people as a gift, the former Russian Banque d'Escompte, and returning to Persia the economic concessions which had been given by the Shahs to the Russian Government and to Russian citizens. The British Government, meanwhile, adopted a policy which, as stated by the Earl of Balfour in 1925, was "to see a Persia which was independent, which was free, and which we could treat as a neighbor on equal terms and whose efficiency, civilization, and power we justly regarded as security for the general position in the East so far as our own interests were concerned."

Relieved of foreign pressure and complications, the inherent capacities of Persia began to assert themselves. Taking stock of the situation, Persian patriots found that, after all, Persian resources were almost intact. Aside from the petroleum of the South, which had been conceded to the Anglo-Persian Oil Company, the monopoly of bank-note issues which had been given to the Imperial Bank of Persia, and a number of farmans promising trouble but of doubtful validity and capable of eventual clearance, the resources of Persia were practically free and still to be accounted among the enormous assets of the Persian Government. Among these assets were highway, railroad, air and wireless rights, the forests and mines in general, vast areas of productive agricultural land, the sturgeon and salmon fisheries of the Caspian Coast and the pearl fisheries of the Gulf, the petroleum of the Northern provinces and the glittering stores of Crown jewels.

Confidence In Foreign Experts

MOREOVER, Persia had human potentialities. Her people were predominately Aryan, intelligent, adaptable and artistic craftsmen. With a deepening sense of nationality, and with an unwavering aspiration for independent self-government, they were giving their confidence politically to the men who had shown themselves to be devoted to the progress of the country. They had learned that, in the presence of foreign competition and domestic political intrigues, the best assurances of impartial and continuous financial and administrative improvement lay in the employment of foreign experts. They had employed foreign administrative specialists since 1900; they had turned once to America for financial experts; they now decided to inaugurate a fundamental program of financial and economic reconstruction, and they turned once more to America.

In yet another direction, the ground had been prepared for progress.

Western observers have frequently fallen into the error of condemning the so-called "backward countries" as hopeless of improvement. Forgetting political history, they are likely to appraise the possibilities of Persia according to the present standards of western countries. In the style of Kipling, they sharply differentiated between "West" and "East," gave solemn warning against vain attempts to hurry the "East," forgetting meanwhile that the world is round, that standards are relative, that human nature is much the same in all times and places, that the cradle of civilization was in the East, that every nation has grown by slow stages to its present position, that geography and circumstances have helped some nations and hindered others, and that no people should be denounced off-hand because it happens to be now emerging from a stage of evolution that other more fortunately situated countries left so long ago that they have forgotten about it.

A National Consciousness

PERSIA is passing through the stage of nationalization and unification—of settled political consciousness—that Great Britain and France achieved five centuries ago, and that America, Germany and Italy, achieved in the nineteenth century. Up to a few years ago, there were strong tribes in Persia with their recognized chieftains and armed forces, which were quasi-independent of the central Government. The collection of taxes showed vestiges of the satrapal system of the ancient Emperors. The central Government was weak at the frontiers. There were, naturally, rebellions and disorders.

In 1921, however, an officer of the Cos-

(*Continued on page* 61)

VIEWS IN SOUTHERN CALIFORNIA

A. B. A. Convention, Los Angeles, Oct. 4-7

OLD FRANCISCAN MISSION NEAR LOS ANGELES

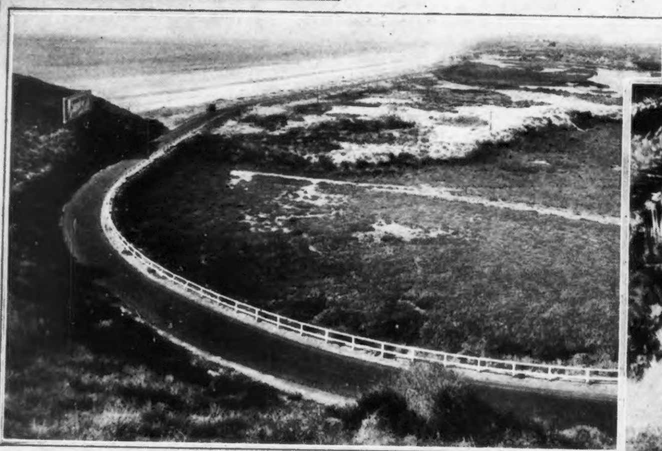
AN EVERYDAY SIGHT AT ANY ONE OF THE BEACHES

A YACHT RACE OFF LOS ANGELES HARBOR

A BATHING BEAUTY PARADE, LONG BEACH

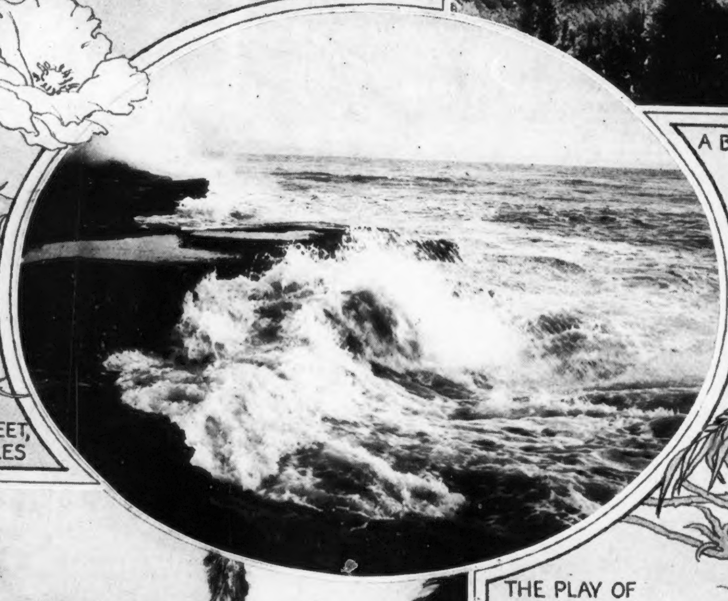
CALIFORNIA AWAI

A. B. A. Convention, L



AND ROADS LIKE THIS

A BIT OF BEAUTY NOT FAR FROM LOS ANGELES



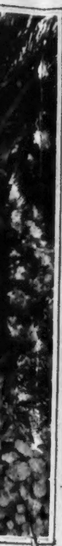
THE PLAY OF THE PACIFIC

A RESIDENTIAL STREET, LOS ANGELES

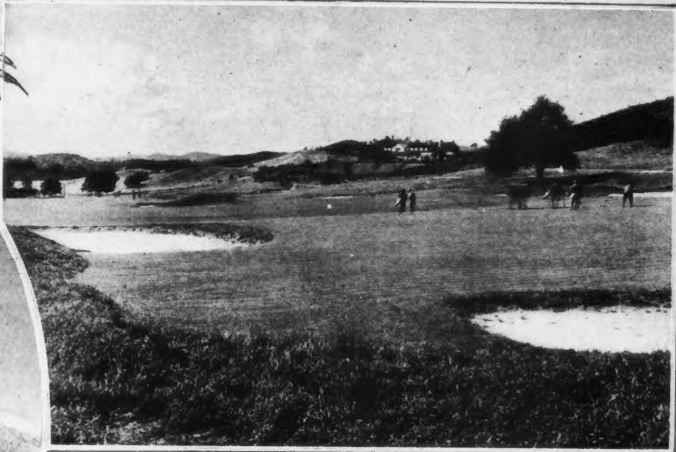
THE FIFTH AVENUE OF

AITS THE BANKERS

n, Los Angeles, Oct. 4-7



A CALIFORNIA CONTRAST



ONE OF FIFTY GOLF COURSES

UE OF LOS ANGELES

LEFT— HOME OF A MOVIE STAR

BELOW— ON CATALINA ISLAND

BEAUTY SPOTS IN CALIFORNIA

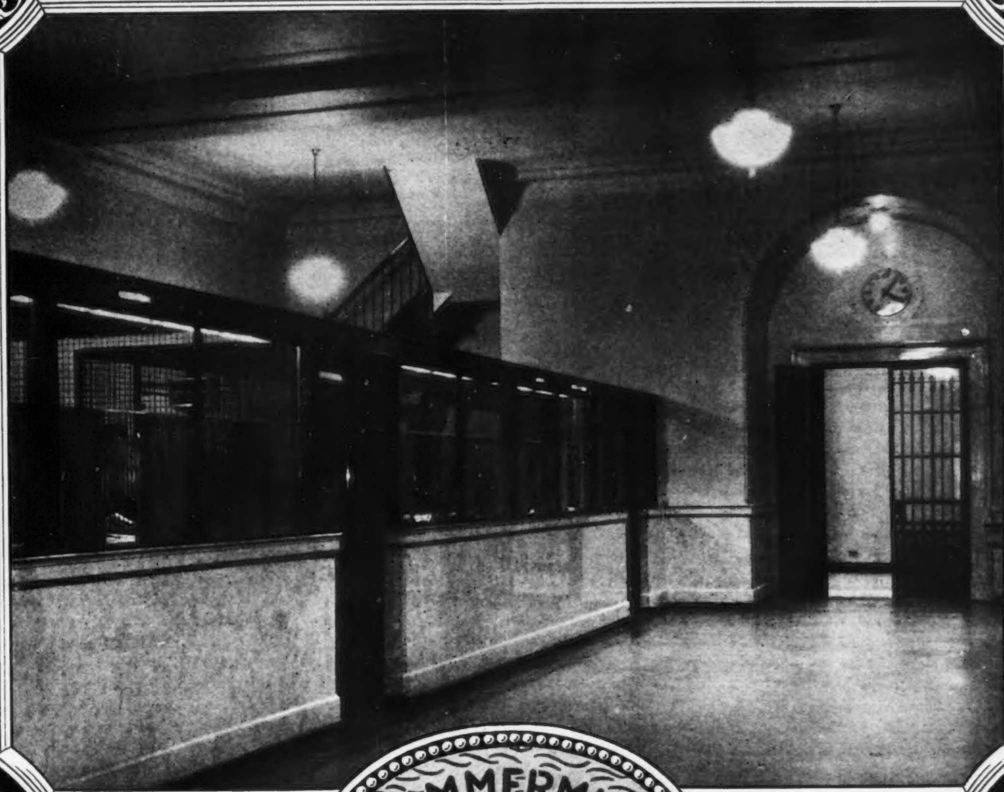
A.B.A. Convention, Los Angeles, Oct. 4-7

THE TERRACE OF ONE OF FIFTY COUNTRY CLUBS

AVALON BAY, CATALINA ISLAND

CHARACTERISTIC OF SOUTHERN CALIFORNIA HIGHWAYS

BILTMORE HOTEL, CONVENTION HEADQUARTERS



Cooperation Will Decrease Crime—Reduce Premiums

By W. J. BURNS

The William J. Burns International Detective Agency

Every Employee of Every Bank Should Be Notified That a Drive is Being Made. Every Member of the Bank Staff Should Read the Supplement of the American Bankers Association Journal. A Typical Case of Cost of Indifference. Cooperate and Save.

WHILE crime has not entirely subsided, for like taxes the crooks are always with us, there has been a very noticeable decrease in crime, and all of this has been brought about as the result of an aroused public conscience, for officials everywhere are on the alert and acting with vigor, with the result that we may confidently look forward to reaching a normal condition in crime. The splendid results thus far obtained prove conclusively the possibility of educating criminals to know and understand that it is unsafe and unprofitable to ply their calling in the face of a determined drive by the combined efforts of the law-enforcing agencies.

I could cite a thousand important cases that came under my personal observation showing the effectiveness of a determined drive. Take, for instance, the extensive land frauds in California and Oregon some twenty years ago, where the government was being robbed of sums leading into the millions, and involved men in the highest walks of life: United States senators, members of Congress, members of the state legislature, a United States district attorney, and many others. Because of their prominence and power, almost the entire investigating agency of the Interior Department became corrupt. The then Secretary of the Interior appealed to President Roosevelt, who promptly took the matter in hand; he employed one of the ablest lawyers in the country as a special assistant to the Attorney General to prosecute the case. I was transferred from the Secret Service of the Treasury to the Interior Department to make an investigation and gather the evidence. Our instructions were to make a most thorough investigation and prosecute regardless of the men involved. This investigation covered a period of three years, and the majority of these prominent men were convicted. They appealed to every possible court for relief and were eventually pardoned through political influence.

No Robberies at the Mint

JUST previous to the land-fraud cases, the government suffered a serious loss at the San Francisco Mint. This investigation covered a year and resulted in the vigorous prosecution of the man responsible, who went to the penitentiary for a number of years. There have been no robberies at the mint since.

Recently the hotels throughout the country made up their minds to check the number of depredations that were being committed against them in the way of "skippers" (men who jump their board bills) and bad checks. They decided it was possible to educate those who prey upon hotels to realize it was unprofitable. The hotel men decided upon a very vigorous campaign, and signed a contract with the Burns Agency to carry out investigations as we do for the American Bankers Association, so that today the person who attempts to defraud a hotel cannot compromise, but will be vigorously prosecuted by the American Hotel Association.

A few years ago the dry-goods stores throughout the country, and especially in New York City, were being overrun with shoplifters, and each year goods amounting to hundreds of thousands of dollars were stolen. The National Retail Dry Goods Association, at one of their annual meetings, invited me to address their convention, and I outlined what, in my opinion, would stop the shoplifting. My advice was that they first assemble a group of the best investigators obtainable, who were familiar with store work; that the entire group keep rotating from one store to the other in their operations; that they apprise the newspapers of the fact that they intended to make a serious drive against shoplifting, and wanted all the publicity possible in every case where an arrest was made until the final termination of the case. I further suggested they give a luncheon, inviting the Police Commissioner or his representative, the District Attorney or his representative, and the chief of the Magistrates' Court and a representative from the Municipal and General Sessions Courts; that they outline to these officials that they proposed to ask for a vigorous prosecution in every arrest that was made for shoplifting; that the representative of their association would follow the case from its inception to its conclusion, and they would ask for as vigorous action from the officials assembled as it was possible to give, explaining the publicity that would be given the matter.

The result was that when Jane Doe was arrested for shoplifting at Smith's Dry Goods Store, the newspapers announced the fact, described the articles stolen, and that she was arraigned; there was a conviction and the defendant sentenced to six months' imprisonment. A vigorous drive was also made to locate the fences dealing in stolen dry goods. In a short time the losses decreased over 60 per cent, and almost every professional shoplifter was driven into other cities. Today this character of theft has been reduced to the minimum.

Tell Every Employee

THE American Bankers Association has succeeded in installing the most perfect system I know for the protection of banks, but depredations against banks could be still further reduced if it were possible to get the very closest cooperation of the banks. For instance, every employee in the bank should be notified a drive was being made to still further reduce the operations of crooks against the banks. A thorough perusal of the Protective Supplement to the AMERICAN BANKERS ASSOCIATION JOURNAL should be made by every member of the bank's staff. Every crime against a bank, whether successful or otherwise, should be reported to the Burns Agency regardless of whether or not a successful prosecution can be had on that particular case, for the information given may fit in with other information we have as to that operator.

In other words, the Burns Agency cannot hope to act as a clearing house for information, or be able to warn the banks ahead of time of the operations of individual criminals unless the banks, in turn, keep the agency constantly informed of attempts whether successful or unsuccessful that are made to defraud them.

Every bank should make a most thorough investigation as to the character, integrity and residence of new employees. There is hardly a day when we do not have reported to us the disappearance of an employee with the funds of his employer. We often find that a superficial investigation had been made of the employee at the time he was hired, and after his employment he was never again investigated, with the result that when we check up we learn that he has given a fake address as his residence.

Many times men are all right and their reputations good when first employed, but many times they take up with questionable associates, change their address, never reporting it to the bank, and when they disappear there are no clues.

They Had Been Warned

HOW little attention some banks pay to the subject of their protection! While in Florida recently I called at a prominent

(*Continued on page* 56)

The "Gloom Stuff" Is Expensive

By C. M. HARGER

News Detrimental to Banks is Magnified While a Comparable Item in Any Other Department of Business Falls into a Minor Place. And no Industry in the World is Subject to the Outpouring of Gloom That Flows Over Farming. Pessimism is Expensive.

"JUST look at that!" exclaimed the bank president, holding up the front page of the evening paper. "Big headlines, black type, top of column, 'Failure of the Bank of Podunk, capital ten thousand, deposits forty-seven thousand.' You would think that editor has an idea that the Bank of England has foundered. If a clothing store with twice the investment and five times the probable loss had closed, it would be over on the ninth page in fine type under the general head of 'business failures,' and nobody but some jobbers would see it. But it is a bank, hence the scare-heads. No wonder the public becomes nervous. I am fed up on this gloom stuff."

The fact is that the editor probably had not given the relative importance of the news a thought. A bank is a financial institution; it relates to that very sensitive portion of the average person's anatomy, the pocketbook nerve. Anything that happens to or through a bank is news. In a way, news is better when it is what the reporter calls "gloom stuff"—material that tells of extraordinary events carrying the element of anxiety—financial, political, social. Unconsciously, and without thought of its effect upon the public, it often gets more prominence than it deserves, because the reporter, the editor and the head writer are not psychologists and fail to understand the effect of such exploitation upon community affairs.

Compare Banks and Business

FOR four years there has been dispensed an oversupply of gloom stuff. Not alone the press but the conversation of the citizen, the orations of the politicians, the solemn deductions of the economists have bristled with grievous tales of financial woe far in excess of actual requirements. The public has not had a well-balanced ration, as the farm expert would put it, in this output of information and opinion.

This country has 28,854 banks of all kinds, according to a recent official statement. During the post-war period and the readjustment era, due to previous overexpansion of many kinds of business, some 2400 banks suspended, covering the entire country from 1920 to date. The business failures, as reported by the mercantile agencies, are even in these times 1900 a month. The public is told in hundreds of columns about the bank troubles; little is said about the business houses in financial difficulty. The unfairness is that it focuses attention upon the banks unfortunately affected and not upon the 28,854 banks that have maintained complete solvency and are today fulfilling their duty toward their depositors, stockholders and communities.

Popular opinion is that a bank suffers from a "run" only when depositors line up on the sidewalk for a block and frantically struggle to withdraw funds because of a fear of loss. These experiences are rare. The history of the past four years has seen far greater injury from the slow drain caused by the dissemination of gloom stuff that has weakened the confidence of the public in banks, regardless of their strength. In one of the most steadily prosperous sections of the farm country, where banks have stood for forty years in sound and unchanged solidity, have been scores of failures from this cause. Banks that were basically on firm foundation have seen their deposits dwindle, slowly, steadily, until came the point where collections could not meet the strain and the doors were closed.

A Bank's Income Depends On—

"A BANK'S income does not depend so much on the customer who uses his money as it does upon the one who lets his money lie in the institution for months or years," explained a long-experienced banker. "The time-deposit stays, and if the interest paid upon it is in accordance with reasonable financial judgment, it is a steady earner for the bank. We had one depositor who had $30,000 in our care for years. He believed in banks and was content. One day I suggested to him that he ought to make it more profitable and offered him a $10,000 farm mortgage that I could recommend. He was nervous about it; he was unused to such investment. But it paid twice the rate he had been getting, and finally he accepted the papers—with perspiration on his face at the risk he thought he was taking. In two years the loan was paid, and he came to me with: 'Look at it—you get it invested and they go and pay it off. Put it back in the bank.' Such a customer is worth more to a bank than the one who cheerfully draws out his deposit, borrows more, does not give a whoop if his account is overdrawn, and whose principal use for a bank is that it shall loan him all he needs in his operations. He does not worry about the bank if he can use it. The silent depositor is the one who stays because of his implicit confidence in the bank's solidity. Every untoward breath that blows causes him anxiety. He is the one the forebodings affect, and his attitude is what makes or weakens a bank's business. The newspaper talk, the street conversation, the whispers, cause him to draw out his money and put it in bureau drawers or other hiding places—and the bank suffers."

Take the situation up in the Dakotas two years ago. Matters were bad enough. Banks by the score had been closed, and Chicago financiers were convinced that nothing less than heroic measures would rehabilitate the financial situation. So they arranged to supply up to $110,000,000 if necessary, and sent agents out to see what could be done. There was a rural community, small towns, a bank to every 750 persons, crop failure the past two years, deflation of prices on land and products, political chaos that had upset the state's affairs—things seemed about as bad as they could get.

"Plenty Happened"

THE financial agents selected the strong banks, and through them the sound borrowers, men who had records of integrity even if not much assets, started placing money from the funds provided—and told folks what they had done and waited to see what would happen. Plenty happened. The depositors who had been withdrawing savings from the banks took it back; deposits grew; confidence returned; financial standing was strengthened. The capitalists who had prepared to furnish over $100,000,000 soon found that conditions were much better than they had been led to believe by the pessimistic reports in circulation. When they had placed a little less than $5,000,000, the need was over and banking was again on a firm foundation, where it could maintain its position. Had there been cheerful truth-telling and sustained confidence, the banks of North Dakota could have proceeded probably without any aid. The success of the project of the Chicago financiers was marked—simply because it banished the gloom and fear that had hovered over the commonwealth.

Take Iowa. That state has furnished the larger portion of the deep dark purple gloom that has affected the farm country during the winter and spring. Around the financial conditions of its farmers have centered untold hours of speechmaking in Congress, and its financial suffering has been featured throughout the country. It has been the kind of propaganda calculated to make the thrifty saver of that state fearsome. Little wonder that banks with extended records of sound management have been undermined by this sentiment. Yet the statistics show that Iowa averages a motor car for less than four of its population. A statement just issued by the newspapers of that state in an attempt to lighten the gloom

(*Continued on page* 49)

Russia's Slow March to Capitalism

By ROBERT CROZIER LONG

While She Gradually Returns to the Practices of Capitalism She Does It Reluctantly and With Constant Protestations of the Success of the State System of Ownership and Operation. Concessions Made and 5,500 Villas and Apartment Houses Restored.

RUSSIA is reverting to capitalism with the slow progress of a tipsy and irresolute man who makes four steps to the rear for every five steps ahead. If you see this man only once and when he is doing his rearward steps you would swear that he can never possibly get forward; but if you look at him again after ten minutes' interval you will see that he has gone considerably forward, even though on this occasion you again saw him taking four steps backward. The Russian movement away from pure communism has this tentative, apologetic, regretful stamp. But Russia moves all the same; and without expecting her to make a programmatic confession that she has erred badly, one can see a reviving common sense, an instinct for the practical, and a wise circumspection in her five-steps-ahead-four-steps-back pilgrimage.

For the United States Russia's alternating locomotion is more important than for Europe; for America is the only great power which has neither recognized the Soviet government *de jure* nor signed a commercial treaty with it. For Russia the alternating locomotion is even more important because it might in the course of time bring American recognition; and to Russia recognition by the country which Kameneff described as "the most backward, the most combative, and the most inimical of capitalistic states" is an absolute necessity. With Europe exhausting her depleted energies in attempts to restore itself, America remains the only country with sufficient cash, energy, and technical proficiency to reestablish Russia's shaken economy.

The System Today

THE immediate, all-important question for America is whether Soviet Russia will recognize property rights. This may either mean property rights regardless of their origin and date, or it may merely mean newly acquired property rights. On this question Russia is diligently pursuing the five-steps-four-steps progress method. First, in 1917 and for several months of 1918, she indulged in pure communism. Next came industrial and commercial anarchy without even the pretence of a communist framework and system. Next, as the only cure for anarchy, came Lenin's system of state capitalism. The essence of state capitalism is that while property is not private, methods of private capitalism are practised by the proprietor state—profiteering, wage-cutting, labor-disciplining, aggravated by imprisonment and shooting for mere economic offences. Compared with a state-capitalist the severest private capitalist of Pittsburgh or Manchester, England, is a puling, puny creature. State capitalism, to which order and plausibility were given by Lenin's "New Economic Policy," is the system of Russia today. It was the system of the Tsarist autocracy in the last decade of the nineteenth century when the great Count Witte bought up railroads and distilleries and vodka shops and other private undertakings, and justified his policy not only by declaring that it would help the finances but also by declaring that it would confirm the Tsar's absolute power "by transforming licentious, revolutionary private railroad men and vodka sellers into submissive salaried officials."

History repeats itself. But it has not yet repeated itself by recognizing private property rights. As far as programs go no very great change has taken place since 1922 when the Soviets' supposed last word on the subject was spoken to the conferences of Genoa and the Hague. Even then only practical concessions but no surrenders of principle were promised. While Soviet-Russia offered to recognize her pre-war debt, she demanded a thirty years' moratorium, and a big credit. She declared that she needed 3,224 million roubles to restore her economic organism. She refused to restore foreigners' property or even to pay compensation for expropriations. She offered nothing more than to give former owners priority when granting concessions or leases of expropriated property. But she in no way meant this as restitution. On the contrary, her last word at the Hague was that the concessionable undertakings would be chosen in Russia's interests only, and without regard to whether the former owners were foreigners or Russians.

Protects German Property Rights

YET even this offer was five steps forward after four steps had been taken to the rear. For before the "New Economic Policy," which was broached in January, 1921, there was no question of even a qualified recognition of former owners' rights. Since then there have been innumerable fifth steps; and Russia has moved so far that (though she never got the credit demanded at Genoa) she can quite tamely negotiate with M. Briand's government for payment of her debts to France. With Germany she has got even further. The Russo-German commercial treaty of October, 1925, protects German citizens' present and future property rights on Soviet soil without any qualification. It even restores pre-war patent rights; and that, though it is of no great material value, is important because it is Russia's first step beyond the hard-and-fast line lying between the Soviet conception of property which dates from 1917 and the foreign rights and interests acquired before the revolution.

The Soviet magnates are practical men. Only practical men could come to the top (and stay there) through the welter of blind ideology, greed, and bloodshed which followed the luckless Kerensky régime. And once one realizes the Soviets' practicableness one begins to understand the tentative, alternating nature of their reversion to capitalism. Practical politicians must inevitably avoid angering and arousing the suspicions of fanatical communist "stalwarts" of academic kind. These fanatics, who are in a position of "greater freedom and less responsibility" than the Kremlin magnates, clamor for pure, unadulterated communism, and denounce backsliders as traitors. So the wise backsliders move with caution, and make a great demonstration of their four steps back while taking their five steps ahead when no one is looking. They outwardly profess the programmes, slogans, and catchwords of communist orthodoxy. Some of the men, like Kameneff, Dzerzhinsky and Rykoff, who have done most to restore capitalism, are Russia's most uncompromising communists when they speak from the tribune of an annual congress of Soviets.

Capitalism Approaching

TODAY capitalism is slowly approaching. Yet communist programs, slogans, and catchwords resound from every platform, appear on the face of every postage stamp, and trickle out of every radio receiver. Nationalized apples from the state farm at Kozloff are stamped with the battle-cry, "Proletariya vsekh stran soyediyaites!" And this is not always mere demonstration. In 1924, after Lenin's death had removed the shrewdest of all Soviet brains, five steps back were made for every four steps forward. For a whole year the communist stalwarts were in the saddle; and in that year half of the Leninite concessions to private capital were withdrawn. In Moscow alone 5000 private retail stores were closed; and it needed a food crisis, aggravated by the year's bad crops, to induce the stalwarts to relent. Since then the movement back to capitalism has been resumed. But it is slow, it is tentative, and it is apologized for. To foreign sympathizers it is even repudiated. When in August, 1925, a German

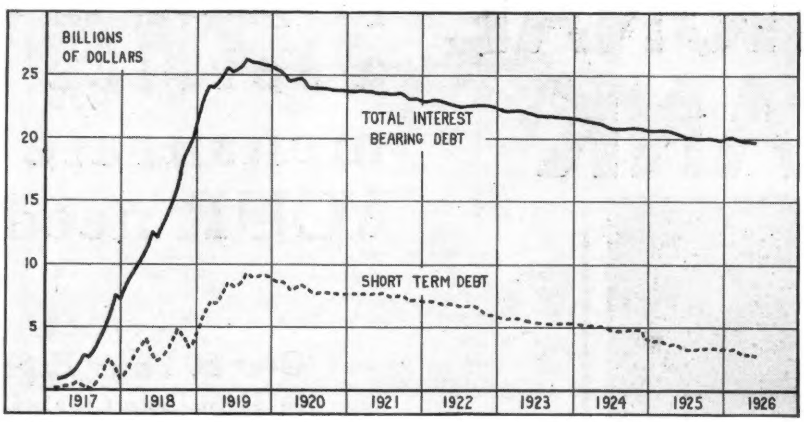
(*Continued on page 62*)

The Condition of Business

An Exception to the Sluggish Movement of Retail Trade is Found in Certain of the Mail Order and Chain Store Companies. Crop Estimates. Government Debt Reduction. The Prospect of Tax Reductions. Financing in June. What of Inflation?

THE long expected warm weather which finally arrived in June has given a favorable turn to the business outlook both for agricultural and retail trade. Sales of seasonable merchandise in some lines have been below normal due to the late spring this year, but reports from different sections of the country indicate that goods are now moving into consumers' hands much more freely. The clothing industries have suffered particularly, as they practically lost their spring season and the demand is now for summer wear.

Industrial production, however, during this period has been maintained at a high rate, and certain lines such as steel and automobiles established the highest records in their history. This has resulted in some accumulation of stocks of goods, and it might be noted that these have been for the most part in the hands of manufacturers, due to the custom now prevailing generally for retailers to carry only small inventories of finished goods and to shift the burden of carrying reserve stocks to the manufacturers, who must be prepared to make prompt shipments on frequent but small orders. The weakness in commodity prices for several months has been another influence against forward buying.



How the Government is cutting down the Public Debt

An exception to the sluggish movement of **retail trade** is found in certain of the large chain store and mail order houses, which handle low priced merchandise of all varieties. The leading organizations of this character have reported sales ahead of 1925 for every month of the current year. They are not entirely representative of business in general as carried on by the local retailer, because of the class of goods they handle and the fact that for several years their volume of sales has been forging ahead much faster than the normal trend. Moreover, in examining the comparative figures of monthly sales, allowance should be made for the number of new stores that are being continually established, and an increase in gross sales may not necessarily indicate a gain in sales per store.

Taken in all, the first half of 1926 compares favorably with the record year 1925, and is far from the state of depression which was feared in many quarters a few months ago.

The harvesting of the wheat crop began in Kansas the early part of June and shows the disastrous effect of the severe drought which has prevailed throughout the West this spring. It is still too early to say with any degree of accuracy what the total yield will be, but there is no question but that for Kansas it will fall far below the official state and government estimate of 133,000,000 bushels on June 1, which was reduced from 142,000,000 on May 1. Some grain men believe it will drop as much as 25,000,000 bushels below the June estimate. In certain sections the soil is the driest in twenty years.

In Oklahoma a crop of 64,000,000 bushels is forecast, and in Texas a banner yield is expected. The other principal surplus states for winter wheat, Missouri, Nebraska, Illinois, Indiana and Ohio, report very poor prospects. The deterioration due to drought is continuing, and all estimates are being revised downward, so that the final harvest may be even worse than in 1925. The Department of Agriculture estimate of winter wheat for the entire United States was 543,000,000 bushels on June 1, comparing with 398,000,000 last year and a five-year average of 549,000,000.

Condition of Wheat

IN the case of spring wheat, the June 1 report gave a condition of 78.5, compared with 87.1 a year ago, but did not issue any estimate of production because of the late spring. Last year's harvest was 271,000,000 bushels, and the size of the present crop will depend on whether sufficient rainfall comes to the Dakotas and other northwestern states during the next few weeks.

The corn crop had a poor start because of the wet weather in early spring and the prolonged drought which followed. Large sections had to be replanted and others were given up entirely or turned into pasture. No government reports have yet been made as to acreage or production, but private advices are that "indicated plantings" will be about the same as last year. The widespread rains which came in June have offset to a large extent the unfavorable start, although there was some damage recently by washing.

Last year's corn crop was 2,901,000,000 bushels, and there is no conclusive evidence thus far that yield this year will not be as large. Conditions are now reported fair in Iowa, Illinois, Nebraska, Missouri, Kansas and other leading states. The prospective carryover of the old crop is one of the largest on record, and heavy reserves are being held on the farms due to the shortage of hogs for feeding purposes last year. While there is now a marked tendency to increase hog production and thereby restore the corn-hog ratio to normal, the prospects are that the corn supply will be more than ample until 1927 at least. In the face of this situation corn prices have naturally continued their decline, which started a year and a half ago. Present quotations are around 70 cents (cash No. 3 at Chicago), compared with an average of $1 for the year 1925.

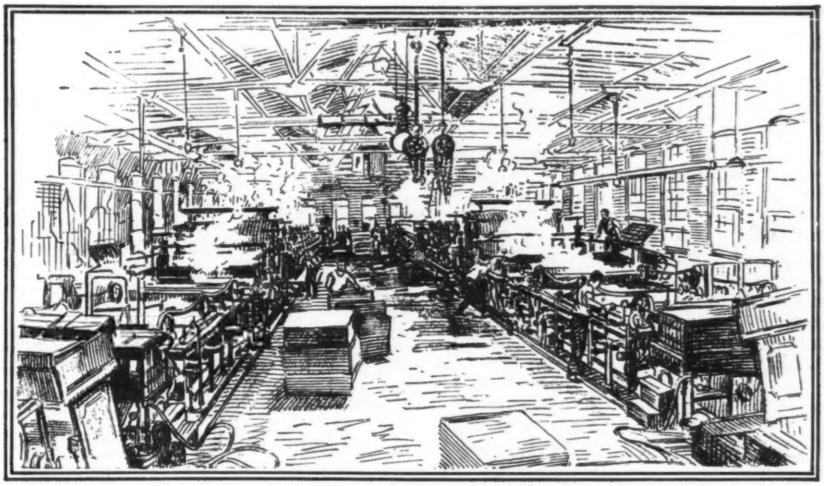
Of the other small grains, rye is forecast on June 1 at 41,100,000 bushels, compared with 48,700,000 harvested last year and a 68,100,000 average for the five years 1921-25. Oats and barley will doubtless be less than last year, for although no acreage or production estimates are available, the condition of 78.8 and 81.0 respectively on June 1 is less than for the corresponding date in 1925 or the five-year average.

Cotton

THE severe slump in the raw cotton market would appear to indicate that the trade is looking for another record crop.

(*Continued on page* 42)

STORIES OF COLUMBIA SERVICE—No. IV
THE PAPER INDUSTRY OF THE MIAMI VALLEY



Interior view of typical paper mill showing two large Fourdrinier machines in operation. Milky pulp enters at one end of each machine, finished paper being rolled up at the other.

The Miami Valley, in southwestern Ohio, is one of the country's principal centers for the manufacture of paper—a basic commodity of modern civilization. While the uses to which this product is put are highly diversified, it is prepared principally for the following purposes: writing and drawing; printing and news; wrapping and packing; cigarette making and tissue; building materials. There are 26 companies in this district engaged in the industry with an annual output of 460,000 tons having a market value estimated at $48,000,000. Individual varieties manufactured include coated, gummed, waxed, and chip paper; blotting, tissue, roofing, bond and linen paper; paper cartons, folding paper boxes, paper fibre containers, cardboard and box-board.

While desire for economies in operating costs has led many American and Canadian paper producers to the selection of plant sites adjacent to natural water power reserves, it is a significant fact that, without similar recourse, the important position of this industry in the Miami Valley remains unimpaired. This condition is due in large degree to the support rendered by Columbia System in making available at reasonable rates abundant electric power for the industrial enterprises of this district of approximately 5,000 square miles in the Ohio Valley.

This is the fourth of a series of advertisements in which we propose to give you detailed information of the services performed by Columbia System companies for these communities, their industries and their homes. Investment in Columbia System securities is, in a real sense, investment in the marvelous Ohio Valley.

COLUMBIA GAS & ELECTRIC COMPANY

OFFICE of the PRESIDENT

COLUMBIA SYSTEM

61 BROADWAY NEW YORK

Eight Special Trains to Convention

AT least eight special trains will be run from the various sections of the United States to Los Angeles to transport bankers to the Fifty-second Annual Convention there on October 4-7.

Two ocean liners—the *Finland* and the *President Harrison*—will carry groups of bankers around America to California from New York by the water route.

In order that the visiting bankers may see the scenic marvels of the western country and obtain a first hand knowledge of the commercial and industrial progress of the West, the railroads have arranged tours en route to Los Angeles and return with stopovers at some of the principal western cities and visits to some of the most famous resorts and parks.

Specials from New York

THERE will be three bankers' special trains, starting from New York.

The New York Central Lines will dispatch the first special, to be known as the Red Section, from New York on the afternoon of September 17. The railroad is routing this section by the way of the Canadian Rockies and the Pacific Northwest. Stopovers are to be arranged at Banff, Lake Louise, Moraine Lakes and the Valley of the Ten Peaks, the Great Divide, Vancouver, Seattle, Portland, Shasta Springs, and San Francisco.

The Green Section—as the second New York Central special will be designated—will leave New York on the afternoon of September 19 and will proceed to Los Angeles by the way of Colorado. Stopovers are to be made at Colorado Springs, the Garden of the Gods, Pike's Peak, Denver, Rocky Mountain Park, Salt Lake City and San Francisco.

The Red and Green sections combine at San Francisco and together visit Yosemite National Park, the Mariposa grove of big trees, Del Monte and Santa Barbara, arriving at Los Angeles on October 3—the day before the convention opens.

The Pennsylvania Railroad will run a bankers' special to Los Angeles by the Canadian Rockies and the Pacific Northwest, departing from New York on the evening of September 19. The special will take on bankers at Philadelphia, Harrisburg, and Pittsburgh. Stopovers have been arranged at Chicago, St. Paul, Minneapolis, Banff, Jasper National Park, Lake Louise, Vancouver, Seattle, Portland and San Francisco, with the arrival at Los Angeles late in the afternoon on October 3.

The return will be made more expeditiously. The combined Red and Green sections will depart from Los Angeles at 2 a. m. on October 8. Stopovers at Riverside, Mt. Rubidoux, Redlands, Grand Canyon and the Indian Pueblos will be arranged but the special will then speed overland to reach New York on the afternoon of October 13.

The Pennsylvania special will depart from Los Angeles at 10 o'clock on the morning of October 8. A stop will be made at Riverside, the Redlands, Phoenix, the Grand Canyon and the Indian Pueblos, while there will be an opportunity for the bankers to see the immense Roosevelt Dam. New York will be reached early on the morning of October 14.

The Chicago "Falltonic"

THE special trains arranged from Chicago and New Orleans will take more direct routes to the convention city and will not consume so many days.

The Chicago special — the Falltonic Special — will depart at 9:30 p. m. on September 28. It will have stopovers at Omaha, Denver, Colorado Springs, Glenwood Springs and Salt Lake City. The Falltonic is due to arrive at Los Angeles early in the afternoon of October 3.

The New Orleans Bankers' Special will speed to California over the Southern Pacific route. It will get under way from New Orleans at 11 p. m. on September 29. Stopovers have been arranged at Houston, San Antonio, El Paso, and Ciudad Juarez, Mexico. It will arrive at Los Angeles at 4:30 p. m. on October 2.

Two Ohio Specials

THE Ohio Bankers Association is arranging a special train that will take part of the Ohio delegation to Los Angeles. The trip will require twenty-five days. Leaving Chicago at 11 a. m. on September 23, the Ohio special will make the first stop at Omaha, where a few hours will be spent, and later will stop over at Denver, Salt Lake City, Zion Park Lodge, the Grand Canyon, Bryce Canyon Lodge, Riverside and San Diego, arriving at the convention city at 6:30 p. m. on the evening of October 3.

Leaving at 8 p. m. on October 8, the special will return to Chicago with stopovers to view the Yosemite Valley and Mariposa Grove; San Francisco; Lake Tahoe, the Royal Gorge, Colorado Springs, and Pike's Peak.

The land-cruise train, built especially for de luxe rail tours, has been chartered by D. Jay Collver, of Cleveland, to transport part of the Ohio bankers to the convention. Leaving Cleveland on September 12, the party will be gone until October 13. En route, the special will stop at Yellowstone Park for four days and will visit Spokane, Mt. Rainier National Park, Vancouver, Victoria, Seattle, Portland, Shasta Springs, San Francisco, Yosemite National Park, the Mariposa Grove and San Diego, arriving at Los Angeles at 6 p. m. on October 3. The return trip will be by the way of Riverside, the Grand Canyon and Albuquerque. The party will reach Cleveland at 3:55 p. m. on October 13.

A Kansas-Missouri bankers' special may be run but the details of the tour have not been made available at this writing.

The Michigan special, consisting of several cars, is expected to join the "Falltonic" at Chicago.

Cruises to Convention

THREE special combined water-and-rail tours to the convention have been planned for those who desire to see the sights in Havana and inspect the Panama Canal on the westbound trip and return overland by rail. The Panama-Pacific liner *Finland*, which formerly operated in the transatlantic service of the International Mercantile Marine Company, sails from New York at 3 p. m. on September 16. The *Finland* will call at Havana, Cristobal, Balboa and San Diego, permitting her passengers to reach Los Angeles early on the afternoon of October 3.

The return trip is to be made overland, the party leaving after luncheon on October 8. Stop-overs are to be made at Riverside and at the Grand Canyon, the arrival at New York being scheduled at 9:40 a. m. on October 14.

The Panama Mail liner *Columbia* sails from New York on August 26. The ship touches at Colombia, Nicaragua, Salvador, Guatemala and Mexico, arriving in advance of the opening of the convention. The cruise is more leisurely than the others. Under the company's water and rail plan, the return may be made by any direct rail route overland with stopovers where desired.

The round-the-world liner *President Harrison*, flying the Dollar Steamship Line flag, is scheduled to sail on September 16. Her passengers are due to arrive in the convention city at 6 o'clock on the morning of October 4.

A Return Special

FOR those who desire to see the Pacific Northwest and the Canadian Rockies, after the convention, arrangements have been made to run the Northwestern Bankers' Special. It leaves Los Angeles at 8 o'clock on the evening of October 7 and its itinerary provides for stopovers at San Francisco, Portland, Kelso, Tacoma, Seattle, Victoria, B. C., Bozeman, Minneapolis and St. Paul before reaching Chicago on October 17 at 7:55 a. m.

Excursion Rates in Force

THE convention will be held at a time when summer excursion rates will be in effect from all sections of the country, except from the nine western states of Arizona, California, Idaho, Montana, Nevada, New Mexico, Oregon, Utah and Washington, as well as El Paso, Tex. The excursion tickets must be purchased on or before September 30 and are good to return to the original starting point by October 31. A round-trip ticket from Chicago to Los Angeles costs $90.30 and the fares charged for round trips from other points are: Kansas City, Mo., $75.60; Memphis, $89.40;

(Continued on page 41)

Eight Specials

(*Continued from page* 38)

Minneapolis, $91.90; New Orleans, $89.40; Omaha, $75.60; St. Louis, $85.60; Cleveland, $109.95; Cincinnati, $105.45; Toledo, $103.78; Atlanta, $111.10; Richmond, $134.75, and New York, $142.62.

Individual carriers have authorized a rate of one and one-half fare for the round trip on the identification certificate plan from the nine states, where the excursion rates do not apply. This will enable those from this territory who desire to attend the convention to get reduced rail fares. The dates of sale in California are from October 1-6, inclusive, with October 11 as the return limit. For Nevada, Oregon and Utah, the dates of sale are from September 30-October 5 and the return limit October 11. The dates of sale for Idaho, Montana and Washington are September 29-October 4, inclusive, with October 12 as the return limit. For Arizona and New Mexico and El Paso, Tex., tickets may be bought on October 1-5, with October 11 as the return limit.

The reduction in fares in the territory in which the identification certificates are to be used will apply only to members and dependent members of their families. Members located in this special territory will receive from the American Bankers Association headquarters in due time certificates of identification so that they may take advantage of this rate.

Assurances have been given that there will be no increase in the hotel rates in Los Angeles. To facilitate the work of the Hotel Committee, delegates and guests contemplating attending the convention are urged to make early application for accommodations. To all members there was forwarded information relating to the hotels, together with reservation blanks. J. H. Ramboz, of the Merchants National Bank, is Chairman of the Hotel Committee of the A. B. A. Convention at Los Angeles.

For Details Write

FOR particulars of the various special trains and tours, which have been described, it is suggested that inquiries be made as follows:

New York Central Lines: A. E. Brainerd, assistant general passenger agent, 466 Lexington Avenue, New York City.

Pennsylvania Railroad: W. E. Eastman, passenger representative, 390 Seventh Avenue, New York City.

Chicago Special—the Falltonic: Any bank or banker in Chicago.

New Orleans Bankers' Special: J. T. Monroe, general passenger agent, Southern Pacific Lines, New Orleans, or C. deB. Claiborne, vice president, Whitney-Central National Bank, New Orleans.

Ohio Bankers Association Special: S. A. Roach, secretary, 305 Huntington Bank Building, Columbus.

D. Jay Collver tour: The Collver-Miller Company, 2051 East Ninth Street, Cleveland.

Michigan Special: Mrs. H. M. Brown, secretary, Michigan Bankers Association, Ford Building, Detroit.

SS. *Finland:* Panama Pacific Line, H. L. Malcolm, tour director, 1 Broadway, New York City.

SS. *Columbia:* Panama Mail Steamship Company, 10 Hanover Square, New York City.

SS. *President Harrison:* Dollar Steamship Line, 15 Moore Street, New York City.

Move for Repeal

REPEAL of the Federal estate tax at the next session of Congress will be sought by the Special Committee on Taxation of the Trust Company Division.

Standardize Forms

PLANS to standardize the forms used by corporate fiduciaries and insurance companies in the development of the life insurance trust are being perfected by the Committee on Insurance Trusts of the Trust Company Division. As the first step, the committee will prepare a memorandum covering the forms. This will be submitted to the insurance underwriters for criticism and suggested revisions. Out of the exchanges it is hoped to evolve standard forms that will simplify and expedite the work.

The decision to follow this course grew out of a recent conference in New York between the representatives of life underwriters and trust companies. At this session it was disclosed that there was a need for more uniformity.

Convention Calendar

Date	State Association	Place
July 15-17	Montana	Butte
Sept. 2	Delaware	Rehoboth
Sept. 10-11	Wyoming	Sheridan
Sept. 15-16	Kentucky	Louisville
Sept. 21-22	Indiana	Lafayette
Oct. 22-23	New Mexico	Roswell
Oct. 22-23	Arizona	Nogales

July 13-16	American Institute of Banking Convention	Dallas, Tex.
Sept. 20-23	Financial Advertisers' Convention	Detroit, Mich.
Oct. 4-7	A. B. A. Convention	Los Angeles, Cal.
Dec. —	Mid-Continent Fiduciary Conference	Omaha, Neb.

Condition of Business

(*Continued from page* 36)

Prices have been working to lower levels for three years successively as production has been raised.

In 1923 the crop was 10,140,000 bales, from which it increased to 13,630,000 in 1924, while the prices of spot deliveries on the New York Cotton Exchange declined from an average of 34.18 cents in January, 1924, to 23.85 cents in December, 1924, and averaged 28.67 cents for the year. In 1925 the crop was the largest in history, the final ginning report just published showing 16,085,905 bales, and during that year the price continued its decline, from 23.98 cents in January, 1925, to 20.06 in December and averaged 23.45 cents for the year. So far during 1926 every month has registered a further decline; sales are now below 18 cents, and some authorities have predicted still lower prices.

Altogether, it appears at this date that the income of the western and southern farmers will fall considerably below that of 1925 unless prices of agricultural products improve materially, or the volume of crops increases, or both.

The Haugen Bill

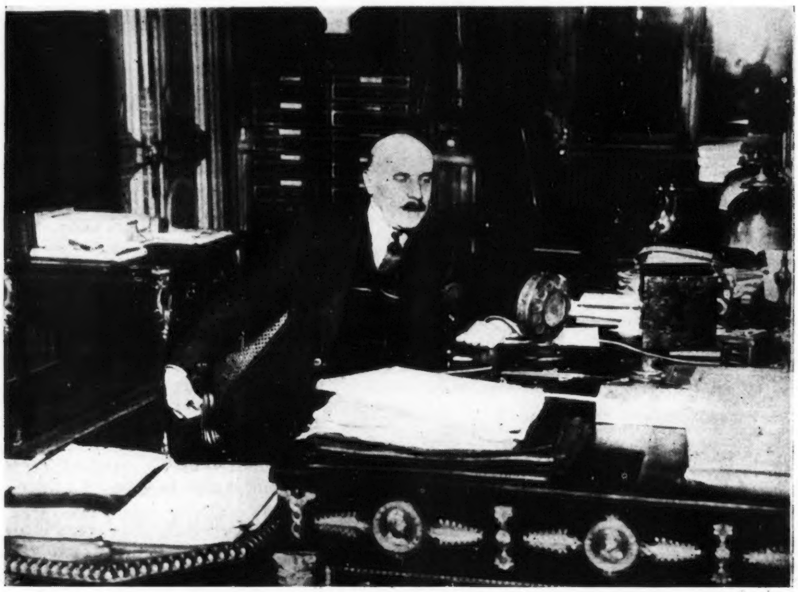
THE failure of Congress to pass the Haugen farm relief bill or any other measures providing for artificial price fixing by the government seems to reflect a clarification in the understanding of the "farmers problem" by the public generally. When any part of agriculture is out of balance, it can be brought back to normal much quicker by allowing economic conditions to have free play than by attempting relief through legislation. The low corn prices are caused by an oversupply of the grain and by an undersupply of hogs. The low price of cotton is caused by abnormally large crops and somewhat backward takings by the textile industry. If the situation is let alone, it will naturally work its own remedy; the low prices will tend to decrease production on the one hand and will encourage consumption on the other

If, however, the government were required to purchase the surplus farm products at higher than the prevailing market prices, it would only stimulate further planting and thus throw the situation out of balance still further. Moreover, the international complications that would inevitably arise from our dumping surplus products into other countries at prices below the level established by world trade are serious to contemplate. What would the advocates of these schemes say if the Canadian Government, for example, bought up that country's surplus wheat and shipped it into the United States to be sold for whatever it would bring, regardless of the competition with western farmers? The policy of the United States Shipping Board in operating boats on the high seas when there is already ample tonnage in private hands, has kept the shipping business in a depressed state for several years, so that all concerned, including our Shipping Board, have had unsatisfactory earnings, or none at all.

The wheat situation and the contrasting high prices now prevailing illustrate the same principle, but work in a different direction. In this case the short crops combined with sustained demand have caused a premium to be placed on production and a deterrent to consumption, which will, of course, tend to right the balance again if only left alone.

Government Debt Reduction

THE outstanding event in the money market during June was the announcement by Secretary of the Treasury Mellon that the customary issue of new securities in connection with the quarterly fiscal operations would not take place. This is the first time since the war that the Treasury has been in a position to handle the



Joseph Caillaux, who as Minister of Finance is endeavoring to stabilize the French franc

transaction in this manner, and marks a milestone in our recent financial history.

On June 15 there matured approximately $333,500,000 short dated certificates which were all retired from current income tax receipts, the payment of $77,783,127 by ten foreign nations on account of war indebtedness and the general cash funds of the Treasury. Heretofore the volume of interest payments and public debt retirements falling due on the regular tax dates has invariably exceeded the tax returns, so that, while there has been a continuous reduction in the total debt, it has never been possible to fully care for all obligations falling due without some additional financing.

Due to the general prosperity of 1925, the tax returns this year have been considerably higher than was anticipated, and large receipts have also come from the collection of back taxes and from customs, which are running at a record rate.

The omission of this new financing, which was entirely unexpected on the part of bankers generally, calls attention to the strong condition of the Treasury and the remarkable progress that has been made in the program of public debt reduction. Following is a tabulation of the interest-bearing debt of the United States as of June 30, the ending of the government's fiscal year, from 1919 down to May 31, 1926, showing the reductions accomplished each year.

Interest Bearing Debt of the United States
000 omitted

June 30	Principal	Reductions
1919	$25,234,496	....
1920	24,061,095	$1,173,401
1921	23,737,352	323,743
1922	22,711,036	1,026,316
1923	22,007,591	703,445
1924	20,981,586	1,026,005
1925	20,210,906	770,680
1926*	19,803,385	407,521
Total	....	$5,431,111

*11 months ended May 31.

It might be noted that the peak of the interest-bearing debt occurred on Oct. 31, 1919, when it reached $25,970,000,000, so that to the aggregate reduction of $5,431,000,000 shown in the table, there should be added $736,000,000, making a grand total of $6,167,000,000 reduction to date, and not including the June transactions. This represents a 25 per cent cut from the high point.

On the accompanying diagram of the public debt there is given also the course of the "short term debt," consisting of Treasury Notes, Certificates of Indebtedness, War Savings Stamps, etc., maturing within five years. From this it will be observed that a large part of the total reduction that has been effected has taken place in the short term debt, which has been either funded into longer term securities or retired altogether.

In 1919, 40 per cent of the total debt, or nearly $10,000,000,000, was in short term maturities, and the Treasury was faced with a most difficult task, considering the general world disorganization prevailing after the war ended. The skillful handling of this huge volume of indebtedness, its refunding whenever money conditions were favorable, and the reduction in the annual interest charge by over $200,000,000 give eloquent testimony as to the genius of the banker who has directed the financial affairs of the government during these years.

At the annual business meeting of the government, held on June 21, General H. M. Lord, Director of the Bureau of the Budget, reported the details of how during the four years since budget control was adopted over $1,379,331,336 has been saved the taxpayers and applied to debt reduction, while at the same time taxes have been substantially lowered. The 1926 revenue act decreased income taxes for all classifications, raised the legal exemptions, and relieved some 2,000,000 people from paying any direct tax whatever. The per capita Federal tax in the United States has been reduced during the last five years from $54.14 to $27.28, and this does not take into consideration this year's new cuts.

Further Tax Reductions?

As to further tax reductions, the Budget Director gave little encouragement for the near future and stated that the estimates for receipts and expenditures during 1927 and 1928 showed only a narrow margin of surplus. While the Administration has pledged itself to adhere to its economic policy, the annual requirements of the regular departments of the government cannot properly be forced below a certain minimum, and may rather be expected to increase from year to year along with the normal growth of population and business. Then each year a substantial sum must be applied to the public debt service as required by law.

Some people are already talking about further tax cuts, and pointing to the large tax returns in 1926 as demonstrating the truth of the principle that lower tax rates stimulate business and actually yield larger returns in the aggregate. Nevertheless, it would certainly seem the part of prudence to defer as premature any considerations of further tax revision until time has given an opportunity to study the effects of the new revenue act, and to see whether the record profits of last year can be repeated indefinitely.

Money and Banking

The money market has continued easy throughout the first six months of 1926, and although rates have ruled a fraction higher than during last year, there has been at all times an ample supply of funds for commercial purposes and for the securities markets. Banks still hold large amounts of investments, which they could sell whenever it becomes necessary.

When the announcement was made by the Treasury that there would be no June financing, rates softened somewhat. The June 15 transactions were effected with only a slight stiffening, which was over in a day or so. The July 1 demand for interest and dividend payments becomes larger each year, but there is no reason why it will not be handled easily, after which rates should continue cheap. A number of industries are now showing signs of slowing down somewhat, which is partly seasonal, so there is little expectation of higher rates until the fall demand for crop-moving develops.

At the end of June the following rates are prevailing in the New York market: Commercial paper, prime names 4 per cent, other names 4¼ per cent. Collateral loans, call 5 per cent, time 4¼ per cent. Prime bankers acceptances, 3¼-3½ per cent up to 90 days, 3½-3¾ per cent up to 180 days, call loans against bills, 3½ per cent. The New York Federal Reserve Bank rediscount rate is 3½ per cent, unchanged since April 23, 1926, when it was reduced from 4 per cent. The other eleven Federal Reserve Banks have a rate of 4 per cent, unchanged since 1925 or prior.

Bonds and New Financing

The bond market was an active affair during the month of June, as the total of new offerings was the largest for several months, and there was a broad volume of bond trading on the Stock Exchange. The prevailing easy money rates referred to above have made the present an opportune time for the issue of long term bonds, and numerous corporations have taken advantage of the condition to sell low-coupon securities to replace outstanding issues that are approaching maturity or that can be called.

The more important offerings during June included the following:

$60,000,000	Federal Land Bank, 4½s, due 1956, price 101, to yield 4⅛ per cent
$40,000,000	Southern California Edison Co., Ref. mtge. 5s, due 1951, price 98½, to yield 5.10 per cent
$30,000,000	United Steel Works Corp. of Germany, S.F. 6½s, due 1951, price 96, to yield 6.80 per cent
$25,000,000	United States of Brazil, Ext. S.F. 6½s, due 1957, price 90½, to yield 7.25 per cent
$15,000,000	Detroit Edison Co., Gen. & ref. 5s, due 1955, price 101½, to yield 4.90 per cent
$23,000,000	Nevada-California Electric Corp., 1st. tr. 5s, due 1956, price 95½, to yield 5.30 per cent
$15,000,000	Great Northern Railway Co., Gen. mtge. 4½s, due 1976, price 94, to yield 4.80 per cent
$15,000,000	Prudence Co., Inc., Gtd. coll. tr. 5½s, due 1961, price 100, to yield 5½ per cent
$15,000,000	Public Service Corp. of N. J., Sec. 5½s, due 1956, price 99, to yield 5.57 per cent
$12,500,000	Southeastern Power & Light Co., Deb. 6s, due 2025, price 95, to yield 6.30 per cent
$12,000,000	Canadian-Pacific Railway Co., Eq. tr. cfs., 4½s, due serially ½ to 12 years, prices 100.20 to 99.54, to yield 4 to 4.55 per cent
$10,000,000	Bethlehem Steel Corp., Sec. notes 5½s, due 1929-32, prices 98.98 to 100.69, to yield 5.20 per cent to 4.75 per cent
$9,635,000	Ohio Power Co., 1st & ref. 4½s, due 1956, price 93, to yield 4.95 per cent
$9,000,000	Cumberland County Power & Light Co., 1st 4½s, due 1956, price 94½, to yield 4.85 per cent
$7,682,000	City of Buffalo, N. Y., Serial 4¼s. due up to 1956, prices to yield 4.00 per cent to 3.50 per cent
$7,500,000	Province of Quebec, Canada, S.F. 4½s, due 1956, price 98⅜, to yield 4.60 per cent
$6,000,000	International—Great Northern Railroad Co., 1st 5s, due 1956, price 95 to yield 5.33 per cent
$5,750,000	Montgomery-Ward Properties Corp., 1st 5s, due 1946, price 98½, to yield 5.12 per cent
$5,000,000	Cities Service Co., Ref. deb. 6s, due 1966, price 93¼, to yield 6.45 per cent
$5,000,000	Container Corp. of Amer., 1st S.F. 6s, due 1946, price 99, to yield 6.08 per cent
$5.000.000	Chicago Builders Building, 1st 6s, due serially to 1941, prices to yield 5.80 to 6.05 per cent

The large supply of surplus funds going into the bond market has raised the prices to the highest level for several years. Following are the *Wall Street Journal* averages on June 25, showing the advances from the 1926 low:

	June 25	1926 Low	Advance
Ten high-grade rails..	91.66	90.07	1.59
Ten second-grade rails..	94.74	91.79	2.95
Ten public utilities....	94.70	92.20	2.50
Ten industrials	99.79	98.20	1.59
Forty bonds combined..	95.22	93.07	2.15

The Stock Market

The stock market, which had been working to lower levels on a restricted volume of trading ever since the break last February, turned sharply upward around the first of June and since then has advanced rapidly. Practically all groups of industries shared in the recovery, although some advanced much more than others. The motors, steels, oils and food products regained practically all the ground that had been lost earlier in the year, while the metals, machinery, utilities and merchandising groups regained approximately one-half. The least

increase was recorded by the textile, leather, coal, sugar and rubber companies, reflecting the unsatisfactory outlook that still persists in these lines.

There is a wide difference of opinion as to the course of stock market prices over the remainder of the year. It is generally agreed that the decline last spring was somewhat overdone and carried many prices below their true values, as usually happens when a bad break occurs. Furthermore, the apprehensions heard at the beginning of this year that 1926 business was due to slump considerably compared with the record 1925 have certainly not materialized. The decline in general commodity prices did not result in any serious disturbance of business or in any marked increase in the number of failures, and the recent firming up of prices is pointed to by some as forecasting a revival of expanding business and profits, since this condition is usually accompanied by slightly advancing prices. Those inclined to the bull side call attention also to the favorable money outlook and suggest that the expected curtailment of the automobile industry, the slackening in building operations, the cessation of the Florida boom and the curb to installment buying will all have the effect of diverting the streams of capital that have been flowing into these fields back to the securities market, where it will go into bonds and stocks. The recent action of the stock market, and the bond averages quoted above, indicate that this has taken place to some extent.

Is Inflation Ahead?

THEN there always remains the possibility of eventual inflation in the securities markets, of causing such a wave of public buying and speculative enthusiasm as will literally carry the market away.

On the other side of the picture is the evidence that almost uniformly the industries of the country are not expanding, but are contracting their operations at this time, and that profits in the second and third quarters of the year will likely be smaller than in the first quarter. While the business situation, speaking in broad terms, is undeniably sound, it is not without a number of bad spots.

The outlook at the moment is really quite confusing due to so many mixed factors. Regardless of whether or not a further upward movement of the present bull market is to take place, bankers who study the high level of securities prices today, as compared with two or more years ago, must certainly consider it the part of wisdom to exercise great discretion in the making of investments and to keep a careful watch on collateral underlying loans.

World Trade Expands

THE international trade of the world in 1925, as indicated by figures for nineteen countries, was more than 12 per cent larger than in 1924, according to the *Federal Reserve Bulletin*. The total international trade exceeded $46,500,000. Germany had the largest increase of any country. The United States enjoyed a gain of 11.4 per cent.

Figures available for the early months of 1926 indicate a shrinkage.

Bank Women's Convention

THE fourth annual convention of the Association of Bank Women will be held in Los Angeles, Cal., Oct. 4-7. The meetings will be scheduled for three days and arranged so as not to conflict with the sessions of the American Bankers Association, thus enabling the delegates to take advantage of the discussions of the American Bankers Association. The residential headquarters for the bank women will be the Hayward Hotel, and the official headquarters, the Biltmore. The convention committee chairmen are as follows:

Chairman General, Convention Committee—Miss Grace S. Stoermer, director, Women's Banking Department, Bank of Italy, Los Angeles.

Chairman, Program Committee—Mina M. Bruere, assistant secretary, Central Union Trust Company of New York.

Chairman of Exhibits—Miss Marjorie S. Schoefel, assistant secretary-assistant treasurer, Plainfield Trust Co., Plainfield, N. J.

Chairman of Transportation—Miss Katherine P. Howard, director, Service Department, Empire City Savings Bank, New York.

Publicity, New York City—Miss Anne H. Houghton, The Farmers' Loan and Trust Company, New York.

Investment Advisor

(*Continued from page 7*)

receive delivery of bonds. Orders are, of course, executed in the bank's name.

Discretionary authority exercised by the Investment Officer in buying and selling bonds is again a matter of individual bank policy. In general, the Investment Officer's work is subject to the direction of an executive officer or committee of each bank.

Limit of Eight Banks at Start

AS regards the possible development of this arrangement on the part of other country banks, there are certain limitations which should be carefully considered.

From the standpoint of the Investment Officer's work, it is advisable to limit the number of banks to from six to eight during the first year's operation. Later it will doubtless be practical to add to this number. As it is of definite value to get a variety of viewpoints and opinions at group meetings, the number of banks should not be cut so low as to interfere with this phase.

In order to reduce the cost to each bank, it is desirable to have a fair-sized total of bond accounts. A minimum of $4,000,000 might be set as a limit.

Charge for the Services

(*Continued from page 8*)

checks cashed over the counter or received on deposit.

Then to equalize between the different classes of accounts, allow and pay interest monthly at a stated rate, say 2 per cent on the minimum balances on all accounts.

The foregoing plan is submitted for earnest consideration by both bankers and the public as an equitable and a feasible plan to make banking a prosperous possibility. Under this plan our charges for the services given through the operation of our checking account department would be far less than the fees charged by our only competitors, and our patrons would also enjoy the additional advantages inherent to checking accounts.

It is said that, out of the twenty-seven most prominent basic industries and business enterprises, if banking were to be included, it would stand at the foot of the list. A recent analysis of 26,000 firms and corporations in 108 different lines, grouped under twenty-seven headings and including banking, shows that the average net profits of the best concerns in the whole group were 25 per cent, while the average net profits of the best commercial banks were only 10 per cent.

Are the bankers less able to manage their business than those who are engaged in other commercial enterprises? Let the country bankers wake up to realize whither they are drifting; they must work out their own salvation, and do it soon, otherwise even the best of them will find themselves on the brink of bankruptcy.

Responsibilities

(Continued from page 12)

not, in the eye of the law, hold the office at all. In such a case the trust company might be involved in costly and disastrous litigation. The fact that cases of this sort have not happened often does not give any warrant for expecting that they will not happen in the future. I, therefore, think trust officers, at least in the beginning, ought to have the attorneys for the bank examine into the regularity of the order of the court by which the appointment is made.

We will assume that the trust had a valid beginning and that the trust company has been appointed trustee, the executor or the guardian, what must be done?

Unsuitable Securities

I WILL not refer to the obvious fact that the trust company must proceed to take charge of the assets confided to it and manage them in a careful way, nor to the fact that the trust company must promptly invest the cash on hand in some interest-bearing investment whenever there is a sufficient amount to make it practicable, a thing which is specifically directed by Section 2261 of the Civil Code (Calif.), but I think it well to point out that when the trustee finds the securities that came to its possession to be unsuitable for a trust estate it should take steps to bring about a change. There are some courts that hold that if the assets turned over to a trustee are such that the trustee could not legally have purchased them for an investment, he is required within a reasonable time to change the investments in such a way as to make them conform to the laws in force in regard to trust investments. I am not aware that our California courts have taken this view but it has been taken by some courts and it behooves our trust officers to bear in mind that it will be no excuse for the trust company to say, in the event of a loss, that the unsafe investment came to it at the beginning of the trust and that it did not believe it was called upon to dispose of it before it had lost all its value.

Sometimes bankers are more familiar with the Bank Act than with other statutes and are inclined to think that when the Bank Act lays down a rule upon a subject that rule governs the case entirely. One might suppose Section 105 of the Bank Act, which declares that trust assets shall be invested in accordance with the laws relative to the investments or loans deposited with savings banks unless a specified agreement to the contrary is made, to mean that if no agreement is made upon the subject, trust funds must be invested in securities legal for the investments of savings banks, but if an agreement is made and the party who creates the trust stipulates that the trust company is not restricted to investments legal for savings banks, then the trust company may invest the trust funds in any way which it thinks proper.

Meaning in Doubt

OUR Supreme Court (Calif.) has not, so far as I am aware, construed the meaning of this section. Therefore, nobody can state with authority what the section means, but it seems to me clearly to mean

that if there is nothing in the trust agreement or nothing in any order of court which states how the trust funds shall be invested they may only be invested in a way in which a savings bank may invest, but if the trust agreement declares the trust company is not restricted to investments legal for savings banks, that clause is not enough to give the trust company unrestricted power to invest; the power to invest trust funds is still limited by the general principles of equity which govern the conduct of trustees.

Now, according to those principles a trustee is generally not allowed to purchase the stocks of any corporation. It is not allowed to buy in its own name real estate or stocks or anything else. It is not allowed to place the trust funds beyond its control in a way such as would happen if the trust company deposited the bonds or the stocks with a reorganization committee under the usual conditions that govern those bodies and consequently if the trust company departs from the rules of equity in any of those respects it may make itself liable for the consequences, whatever they may be.

I think it wise, therefore, in cases where it is deemed desirable to have the trust agreement specifically authorize the trustee to invest in stocks which the trustee thinks safe, to take title to property in its own name and generally speaking to have greater power of control than courts of equity allowed to personal trustees.

One Absolute Rule

THERE is one rule of law which I believe is absolute in regard to the actions of all trustees. The trust company can not purchase investments from the bank of which it is a part, even if the investments are of the highest order and even if the securities are quoted on the exchange and bought at the market price. An exception is made in the case of mortgage participation certificates, but that is the only exception. Section 25 simply means that the bonds of the trust department as a whole may be transferred to the savings department or vice versa but does not mean that the bonds which belong to the savings department may be transferred to a specific trust for a particular person.

We ought not to accept a trust which is either not practical or very difficult of execution.

I have heard of cases in which trust companies undertook trusts that subsequent events made them wish they had never undertaken. Sometimes these difficulties could not have been foreseen but oftentimes the difficulties are apparent on the face of the paper in which the trust is created. It must often appear obvious to the officer of a trust company that trust companies are financial business concerns and are absolutely unfit to act as artists, nurses or teachers. I do not think we could expect to make much of a success as merchants, manufacturers or farmers. It is certainly unwise to accept a trust that requires the trustee to determine matters as to which there is no definite standard.

Impossible to Execute

IT is a rule of law that a will which is not certain, both as to the objects of the testator's bounty and as to the subject of the testator's gift, is void. A case recently arose in California in which a testator directed that under certain circumstances his estate should be divided among his nephews and nieces so as to make them all equally wealthy. That gift was held void by the Superior Court, which was of the opinion that with forty or fifty nephews and nieces and grandnephews and grandnieces, scattered all over the country, it would not be practicable even for a court to determine the wealth of each one of them at a given moment of time and to divide the testator's estate among them so as to make them all equally wealthy.

There have been cases in which testators have directed that a gift be made to the "most deserving" of certain specified relatives, that a legacy be given to a daughter in case she did not marry anyone beneath her station. In short, cases have arisen in which it was obvious that to carry out the testator's wishes would depend ultimately merely on questions of opinion. If trusts of that sort should be brought to us by living persons or if we should be asked to accept a trust in which we will be called upon to determine questions of good conduct, of religion, of refined tastes, of correct social etiquette or the like or in which to carry out the trust the company would require the skill of an artist to comply with the wishes of a trustor, we certainly ought not to burden ourselves with something

which we are absolutely unfit to do. If we should be called upon to carry out a trust involving property of small value scattered over a great extent of territory or even property of great value which requires special mercantile skill and ability to handle it in the proper way, we certainly ought not to attempt it. Those are matters which a trust company is not fitted to do and certainly ought not to attempt.

Let No Conflict Arise

BUT beyond all of that there is something which ought not to be lost sight of. The trust company should remember that trusts have their origin in courts of equity in which the standard was the highest standard of good conscience and that the obligations imposed upon a trustee are far weightier than those imposed upon the usual business man. The bank, in its commercial and its savings departments, may act with its customers substantially in the same manner as a merchant. They may deal at arm's length, but when the trust company acts with its beneficiaries it must conform to a loftier standard. There never should be a case in which there is or even appears to be a conflict between the beneficiary and the interest of the trustee. If the trustee permits such a condition of affairs to arise it may not only lose the just reward of its work to which under proper conditions it would be entitled, but it may seriously affect its good name.

The great magnitude of the interests controlled by trust companies, growing as they are from year to year, demand that nothing be done by any trust company to arouse the animosity or antipathy, not merely of the beneficiaries of the trust, but of the public at large.

If a claim is made of wrongdoing on the part of a trust company even if the claim has no justification, the press is very apt to give to it far greater publicity than it would give to a hundred years of careful, efficient and honest hard work. Under these circumstances we ought not to place such a weapon in the hands of our enemies. If we should even allow the appearance of a conflict of interest between a beneficiary and the trustee we would not only injure ourselves but every other trust company in the state. An attack made upon one trust company is an attack made upon all and hence none of us should even seem to do something which, when subjected to the closest scrutiny of the strictest courts, could fail to meet with anything but the highest approbation.

Gloom Stuff

(*Continued from page* 32)

says that in the period from January 1 to April 12, 1926, 88 banking days, deposits of Iowa state banks increased $9,400,000, while loans and discounts decreased $3,500,000. It is estimated that, with national bank reports added, the total deposit increase would be over $10,000,000—and this in the time when the most pessimistic reports of that commonwealth's situation were in circulation. What was the use of exalting the unfavorable factors and failing to note the encouraging ones?

What Can You Expect?

NOR is the pessimist busy with the banker alone. President F. D. Farrell, of the Kansas State Agricultural College, the other day gave voice to a protest against the constant detraction of farming as a business. "Farm leaders and farm organizations who have been seeing nothing but ruin and unfair dealings for farmers for years, and who talk and write nothing else," said he, "have placed themselves in the position by now that the public discounts everything they say. We can't expect the young folks to stay on the farm if every speech they hear, every article on farming they read in the newspapers and in farm papers, paints the farmer's situation as hopeless and degraded beyond possibility or help. Farm organizations are not going to get the

farmer anywhere simply by running down and painting black pictures of the deplorable condition of agriculture."

And that is the truth. No other industry on earth is subject to the outpouring of gloom that flows over farming. The bankers have had difficulties—but you have not heard them declaring that banking is a poor business. Merchants by the hundreds have failed in the post-war era, and profits have been slim—but the merchants do not grieve in public. Neither of these classes would allow any politician to run down its business. Farmers have their problems, but, just as President Farrell says, if we expect young men to go into farming, we should point sometimes to those who succeed—and they are legion—and not confine our remarks to those who fail and thus steadily undermine the basis for productive industry in this country.

For a great portion of the banks of the country, the prosperity of the rural states is fundamental. That there is a marked improvement compared with two years ago is evident throughout the farm country. The recent census report just issued shows that in states like Oklahoma, Iowa, Nebraska more than half the farms are entirely free of mortgage—does anybody mention it?

"As to the Speculator"

AS to the speculator—the one that took a chance when the taking seemed good and yet has hanging over him debts and obligations—much of his obligations has been refinanced. He has either deeded over to the mortgagee his encumbered farm, on which he assumed too great a mortgage for his means, or has made some agreement to extend his time of payment. Perhaps he has borrowed of the Federal Land Bank and has thirty-four years ahead before the principal is to be liquidated. His bank notes have in part been charged off: he may pay them sometime, he may not—probably not. Such as remain have been worked out with his banker, and he is starting anew with cooler judgment and determination to exercise economy instead of extravagance. He realizes that his future depends more on personal initiative, timely rains and properly distributed sunshine than on legislation. If Nature be generous, he will, through the modern cheaper methods of production, work out his own salvation, accepting gratefully such legislation as tends seriously toward betterment. A single commonwealth may be in unfortunate circumstance, but that does not affect the residents where skies have been kind.

The farmer's net cash income is higher than it has ever been in peace time. Were it not for the hang-over of war days, he would be in a most satisfactory situation—so would everybody else. As agriculture becomes more diversified, any uniform condition of depression is less probable. New factors—transportation, rapidly being transformed locally by the hard-surfaced road with bus and truck service, taxation, preponderately a local issue, and price levels for products, influenced by world production—take the place of sectional influences. Progress goes forward with the helpfulness of cooperation, better marketing systems and decreased cost of production. The farmer becomes more completely a business man, has a broader vision of his vocation, with steadily decreasing dependence on special legislation, and more faith in sound economic processes, and possesses a firm faith in the future of the United States of America.

Pessimism is expensive. It costs money to every interest that goes into the upbuilding of a community or of a business. The unregulated optimist is, of course, undesirable—he leads to an attitude of mind that slights the essentials of constructive progress. But the gloom dispenser weakens the financial structure of a country by destroying confidence and bringing suspicion. Bankers are seldom afflicted with it—but they can help themselves and their community by exerting their influence day by day—with customers, with visitors, with everybody with whom they come in contact—to bring about straight thinking, realization of the good things that are happening and a hopeful and sane view toward business affairs.

The banker who declared that he was "fed up on gloom stuff" had reason for his feeling—but he and every other banker can do much to lessen the output of discouragement. He, for instance, could have explained to the editor the proper relation of news stories. Complaining about it will not help—but actual effort toward right presentation of conditions as they are will give a new tone to the public sentiment.

Par Clearance Upheld by Supreme Court

By THOMAS B. PATON, GENERAL COUNSEL

THE Supreme Court of the United States has finally decided the case of Pascagoula National Bank v. Federal Reserve Bank of Atlanta by declining to review the judgment of the Circuit Court of Appeals upon writ of certiorari. Formal order denying the petition for the writ was entered on June 7. No written opinion was handed down.

The case was before the Supreme Court last November upon appeal from the district court which denied four contentions of the bank as follows: (1) That national and other member banks have a right to immediate par credit instead of deferred credit by the Federal Reserve Bank for deposited checks and drafts drawn upon other members within the district; (2) that such member banks have a right to charge for remitting payment to the Federal Reserve banks for checks drawn on such banks when held by the Reserve Bank for collection and not as owner; (3) that the Federal Reserve Bank has no right to have or collect any checks drawn on its member banks which come to the Reserve Bank from a source outside its own district; (4) that if the Federal Reserve Bank authorizes a deprivation of the right of a member bank to charge for remitting payment to the Federal Reserve Bank, such provision is contrary to the constitution.

Last November the Supreme Court declined to hear arguments on the ground that the case was not properly before it, the appeal having been taken directly from the district court and the court ordered the case transferred to the Circuit Court of Appeals, Fifth Circuit. Since then the Circuit Court of Appeals affirmed the judgment of the district court and the order now entered denying the writ of certiorari is a final disposition of the case in accordance with the findings of the district court.

(For history of this case, see Journal A.B.A., February, 1925, p. 515, and December, 1925, p. 445.)

New Books

TODAY AND TOMORROW. By Henry Ford in collaboration with Samuel Crowther. Published by Doubleday, Page & Co., New York. 273 pages. $3.50.

Henry Ford tells hows he keeps prices down with wages up. The Detroit manufacturer says that "The duty of every manager of industry is to encourage business by making it easy for people to obtain what they need at a price they can afford," and he recites how he has done this in his various activities, from manufacturing automobiles to running a railroad. The book has a great deal of substance to it. Mr. Ford gives the details of how labor-saving devices were developed in his plant, and his explanations of how these improvements cut down costs are ingenuously simple and interesting.

He states his business philosophy in an epigrammatic style. At times the book seems conversational in tone, with the automobile manufacturer discussing his ideas of work, living, and business in a detached, impersonal way. He repeats his warning about the fallacy that business is money and that big business is big money. "When finance exists to serve industry, which is its proper function, then finance is recognized as part of the service instrument of humanity," he says. Finance must serve business rather than dominate it, he insists.

The book is stimulating, the views expressed significant and impressively practical.

INTRODUCTORY ACCOUNTING. By J. A. Powelson. Published by Prentice-Hall, Inc., New York. 711 pages. $5.

This book presents the principles of bookkeeping and elementary accounting. At the outset it explains the use of a simple balance sheet, the statement of capital and profit and loss statement. The later chapters deal with the methods of keeping the accounts, so that the ledger may supply properly the detail for financial statements. The procedure for accounting for sole proprietorships, partnerships, and corporations is given, as well as explanations of how the balance sheet may be used to interpret financial conditions.

Charles A. Fisk, vice-president of the Amarillo Bank & Trust Company of Amarillo; president of the Texas Bankers Association

Dollar Chasers?

A BLOW to the widely held European notion that Americans are "dollar chasers" was dealt by Jeremiah Smith, Jr., the American who for the past two years has served as financial administrator to Hungary under the international plan to stabilize the Hungarian currency.

Having completed his job with distinction, Mr. Smith, a Boston lawyer and financial expert, was tendered a check for $100,000, representing his salary for two years. He declined to accept the money, stating that he could not conscientiously take the large sum from a nation in such straitened circumstances as Hungary. Mr. Smith reorganized Hungary's finances and succeeded in stabilizing the currency. Not only did he decline to accept the salary, but he refused to permit the government to pay any part of his living expenses for the two years he had been in Budapest.

Mr. Smith is one of the group of Americans, who have served as financial advisors to foreign countries during the past few years.

THE MIND OF THE MILLIONAIRE. By Albert W. Atwood. 263 Pages. $2.50. Harper & Brothers, New York City.

What keeps millionaires at wo-k after they have amassed a fortune?

Is it the acquisitive tendency; the lure of a game; the quest of power; the desire for prestige; a sense of social obligation?

These are some of the motives which Mr. Atwood examines in this book. He supplies a wealth of interesting illustrative material in showing from his own first-hand contacts how the minds of millionaires work. This is the first serious study of the rich man's psychology.

Small Banks in Reserve System

ONE of the problems that has confronted the Federal Reserve System has been its inability to get the small state banks to become members.

However, the Federal Reserve Board reports that there were 239 banks, having a capital stock of $25,000, in the System at the beginning of this year, and 362 banks, with capitalization ranging from $25,000 to $50,000.

There are three banks that are members of the System which have a capital of less than $25,000. One Texas member bank has a capital of $17,500 while one state bank in Tennessee and another in Mississippi have only $15,000. There are 1441 state banks and trust companies holding membership in the Reserve System.

Lower Discount Rates

THE discount rates of the central banks in various parts of the world are still tending downward. The German Reichsbank, in July, lowered its rate from 6½ to 6 per cent. It is hardly more than a year since the discount rate in Germany was above 10 per cent.

Switzerland and the Netherlands have a rate of 3½ per cent in effect, the lowest in the world. This is the same as the New York Federal Reserve Bank, which performs many of the same functions as a central bank of issue. Sweden has a 4½ per cent rate, England and Spain 5, and Denmark, Norway and South Africa 5½ per cent.

The discount rate in Poland in June was 12 per cent—the highest of all of the central banks of issue.

Profits in Oil

(Continued from page 11)

Oil Company shares. The Pacific Oil Company was formed in 1920 to segregate the oil lands of the Southern Pacific Company from its railroad properties.

In March, 1926, the Associated Oil Company merged with the Tide Water Oil Company under the title of Tide Water Associated Oil Company.

In December, 1925, the Standard Oil Company of New York announced the consummation of a merger with the Magnolia Petroleum Company, in which it had a large interest for several years, and in May, 1926, it absorbed the General Petroleum Company, which operates principally in Pacific Coast territory.

Other recent mergers include the Ventura Consolidated Oil Fields and the Mohawk Oil Company into the California Petroleum Corporation during 1925, the Waite Phillips Company into the Barnsdall Corporation in January, 1926, the Texhoma Oil and Refining Company into the Continental Oil Company in February, 1926, and the Southwestern Petroleum Company into the Texas Company in June, 1926.

Rumors are current of impending mergers of other oil companies, which, with the improved outlook for the industry, have caused prices of the shares to advance to the highest levels of the year, although oil stocks as a group did not participate in the big 1924-25 boom in the stock market. Many people look for much higher prices in the future.

The Outlook Favorable

PROFITS in the oil industry are determined chiefly by the prices of gasoline and other finished products. There has been a slight overproduction by refineries nearly continually for the last several years in spite of the motor demand that grows by leaps and bounds. Possibly too much capital has been put into refinery facilities, and each company desires to operate its plants at full blast regardless of the effect on the general situation.

Then there has been an overproduction of crude petroleum, due to the discovery of one field after another and its rapid exploitation, one of the peculiar characteristics of the oil industry where the ownership of a new territory is divided up among many companies and individuals, each of which rushes to extract the oil before his neighbor drains the pools under his land. When crude production is heavy, the natural tendency is to run it into refineries for what it will bring, rather than attempt to store it in expensive reservoirs and assume fire hazards.

The result has been periodical declines in gasoline prices, as shown on the accompanying graph. Crude oil prices have also been weak, but they are not so important a factor for the larger companies, most of which produce at least a part of their own requirements. For these integrated units a low price for crude oil, if gasoline holds steady, actually gives them a larger profit. The concern engaged only in production, however, which sells its oil to a refiner or a pipeline company, will be directly affected by the posting of higher or lower crude prices.

Demand is constantly growing, not only in the automobile industry, but for steamships and motor boats, oil-burning and Diesel-electric locomotives, aviation, farm tractors, and stationary engines, power in manufacturing plants and heating in homes. The hard-coal strike last year introduced many people to the convenience and present cheapness of oil as fuel.

The problem within a few years will doubtless be, not how to check the overproduction of petroleum products but how to secure adequate crude oil for requirements. For the last two years the Federal Oil Conservation Board appointed by the President, also the Conservation Committee of the American Petroleum Institute have been studying the outlook for "tomorrow's gasoline," and their reports are deserving of careful reading.

Profits so far during 1926 are considerably ahead of 1925 according to practically all the interim reports that have been published. The higher prices prevailing for gasoline (21 cents per gallon at wholesale, compared with an average of 19.1 cents last year) and crude oil ($2.05 per barrel for Mid-continent compared with an average of $1.68 for 1925) would seem to forecast very satisfactory earnings and possibly some extra dividends for the stockholders.

These increased prices have already had the effect of stimulating new drilling in all fields. The activity is not confined to the big-well districts of the Mid-continent and California, but embraces the largest area of wildcat territory ever systematically perforated by the drill, and, further, includes a real revival in old eastern fields.

Call Loans

(Continued from page 26)

loans on the floor of the exchange. The procedure is for the bank to telephone to the office of the stock exchange member instructions to lend a sum of money at the current or at a specific rate. These instructions are relayed in turn to the money desk on the floor of the exchange where they are duly recorded. In like manner the borrowing broker files at the money desk a memorandum stating how much money he requires. Thus lender and borrower meet in their turn and both are promptly notified of the identity of the other party to the transaction by the money clerk of the exchange.

After the renewal rate has been posted, the rate for new loans may fluctuate with the constantly changing conditions of supply and demand. It might be timely to consider at this point the reason for the call money rate fluctuating more widely than any other money rate in the world, inasmuch as a general misapprehension of this phenomenon has invoked a great deal of criticism.

Eccentricity seems to be inherent in the interest rate for call loans because it is the resultant of two forces of supply and demand, unrelated in this unique instance.

Every contract made on the exchange is completed and the securities delivered and paid for on the full business day next following. It is thus seen that a day of heavy liquidation on the part of customers of New York Stock Exchange firms will cause a material shrinkage in credit requirements necessitating the paying off of loans and the recovery of securities to be delivered against the previous day's sales. On the demand side, therefore, we see the possibility of material over-night changes due to either a heavy liquidation of speculatively held securities or a sudden wave of speculative enthusiasm.

Thus on the demand side of the transaction we have the brokers' credit requirements changing from day to day with the constantly shifting speculative position of their customers. The day loan therefore is admirably suited to their need of daily adjustment. In the matter of financing, the New York Stock Exchange is unique among the primary securities markets of the world.

On the other hand, the supply is regulated solely by the reserve position of the banks throughout the country and their natural desire to make full use of their lending power right up to the limit set by their reserve requirements, and bears no relation to market needs. This unresponsiveness of credit supply to demand is peculiar to brokers' loans and is largely due to their exclusion from the Federal Reserve rediscount privileges.

Critics Confuse Cause and Effect

FAILURE to understand the nature of the funds which are offered at the money desk on the floor of the stock exchange has led many critics of security speculation to confuse cause and effect. Instead of having first call on banking funds, as many appear to believe; instead of being the honored guest at the credit table, stock exchange borrowers must make shift with what funds remain after the feast. In this connection I quote from the report of the Federal Reserve Agent in New York to the President of the United States Senate:

"It is the universal custom of the banks to satisfy first the commercial needs of their customers. They feel an obligation to customers but none to those who borrow in the open market on securities. Besides, as the resources of the banks mainly come from the commercial customers, their own self-interest compels a preference in favor of their commercial borrowers, since failure to grant them reasonable accommodation would induce them to withdraw their deposits and so reduce the ability of the banks to do business. Although the money of the banks and trust companies comprises by far the greater proportion of the money loaned on the securities market, an examination of the prevailing rates on commercial paper at times when the call-money market is particularly strained indicates that there is little causal relation between the rates for call money and those on commercial paper."

Misconception as to Use

NO discussion of call loans would be complete which failed to notice the prevalent misconception of the use of money so invested. The unthinking criticism of securities speculation as serving no useful purpose is naturally shared by the funds which make such speculation possible, and which are alleged to be diverted from productive into unproductive uses. In short, a prejudice in favor of commercial loans as against "street loans" exists on account of the former being regarded as serving a

useful purpose while the latter are supposed to sustain useless speculation. The unsoundness of drawing an invidious distinction based on inherent difference between the two classes of loans appears from the expedient transformation of one into the other. The phrase "frozen loans," as applied to commercial loans, was a commonplace in the years 1920 and 1921 when many loans originally intended for short periods became long-term obligations in fact, due to the inability of the borrower to pay and the unsalability of the commodity collateral behind the loan. In many instances the banks turned for relief to the securities market where they funded their frozen short-term loans and sold them to the public as long-term bond issues. Thus the commercial or industrial borrower continues to apply the same fund to precisely the same uses only now, instead of being obligated to the bank, his creditors are investors and speculators, while his bonds repose in the loan envelopes of banks. This experience, repeated numbers of times since 1920, transforming and funding commercial loans into long-term bond issues, many of which are taken up by speculative investors who use "call money," should conclusively demonstrate the illusory character of fine-spun distinctions between commercial loans and "street loans."

In discussing the first report issued by the New York Stock Exchange giving figures on the total borrowings of its members, the March letter of the National City Bank said:

> "* * * The practice has been growing for many corporations to obtain their working capital through the sale of securities rather than through recourse to bank loans and advances. To the extent that credit is employed to float such issues and carry them pending their final absorption it may be as truly considered employed for commercial purposes as though the funds were advanced directly to the manufacturer or distributor whose securities collateral the loan."

City and Country Loans Compared

THE total amount of "street loans" had been a matter of guess up to January 30 of this year, when the New York Stock Exchange issued the first of its monthly reports giving figures on the total borrowings of its members. At about the same time the Federal Reserve Board inaugurated weekly reports giving the volume of loans by sixty-one New York city member banks to dealers and brokers. Both reports indicate demand loans to be nearly three-quarters of the total while the Federal Reserve statement made on January 27, the nearest comparable date to the New Rork Stock Exchange report of January 30, shows approximately 41 per cent was advanced by New York City banks for the account of out-of-town banks. The Federal Reserve Board's figure of $887,238,000 loaned on call by member banks for correspondents shows the important part played by out-of-town funds in the present market. This figure will be considerably increased if we consider the out-of-town funds which indirectly find their way to the call loan market. The Federal Reserve statement shows $705,906,000 loaned on call by the New York banks for their own account. It should be remembered that included in this sum is a part of the demand deposits of out-of-town banks. These deposits upon which interest is allowed must be made to earn interest. Consequently, it is necessary for the New York banks to employ at the best obtainable interest rates, that part of the money deposited with them by other banks in excess of the cash reserves which the law requires them to keep against such deposits. The wide fluctuations to which these deposits are subject, make it necessary for the New York banks to loan a considerable portion of them on New York Stock Exchange call loans, where payment can be obtained on demand and without question.

When collateral loans are mentioned our thoughts turn so naturally to Wall Street that we are apt to forget the universality of the practice of borrowing from banks on securities, regarding it as a form of financing peculiar to Wall Street. Many will be surprised therefore, to learn that the total loaned by all banks throughout the country was seven billion dollars, or over twice that loaned by the sixty-one reporting New York City banks, while the estimated total collateral loans of all banks was nine and one-half billion dollars or about three times the present total of brokers' loans as reported by the New York Stock Exchange.

Distributor of Merchandise and of Securities

IN pointing out the similarity of the services rendered to industry and trade by both commercial and collateral loans, I

mentioned the important part played by the latter in funding frozen loans which had become a serious banking problem in 1920 and 1921. The analogy between commercial and street loans is even more striking when we stop to consider the reasons for them and the uses to which the funds are put. Everyone is familiar with the way in which merchandise is distributed; how goods pass through a series of speculative dealers before they reach the consumer. The manufacturer's output successively passes to jobber, wholesale merchants, retailers and finally to consumers. At every stage of progress, from the purchase by the manufacturer of his raw material to consumer, goods are financed by our commercial banking system.

The distribution of securities necessarily follows precisely the same process. The corporation creates its securities which it sells to a banking house from which they successively pass to investment bankers, individual speculators and ultimately to investors. These speculative dealers, from the original house of issue to the individual speculator, are enabled to carry the floating supply of securities by loans from the banks in precisely the same way that commercial loans financed the mercantile middlemen. There is not the slightest difference in character between the two classes of loans. As commercial loans are necessary to trade and commerce, so collateral or "street loans" are necessary to corporate finance.

Cooperation

(*Continued from page* 30)

bank. The president advised me he was just on the point of writing to the American Bankers Association about a $6,500 loss. When he explained the circumstances he was surprised to learn that the American Bankers Association did not make an investigation on an uncollected item; however, we took it up for him independently. When he described the scheme to defraud his bank I was greatly surprised, because that same scheme had been repeatedly described in the Protective Supplement to the AMERICAN BANKERS ASSOCIATION JOURNAL. Fortunately the men who victimized this and a number of other banks in that state were subsequently arrested in New York and are now being prosecuted.

Scheme is Old

THE scheme used is old. Practically the same plan is being carried on by two or three Italian swindlers. The only difference in the two schemes is that in Florida they did not go to the trouble of purchasing Liberty Bonds from a brokerage house—they merely cultivated the teller and in the end cashed a worthless check.

The swindlers open an account in the bank with $500 cash as the initial deposit. Two or three days later they deposit $1,000 more. They then make one or two purchases from a large brokerage house of Liberty Bonds or Italian lires, and get certified checks on their account. These checks are always good. Finally, when ready to act, they negotiate for a $5,000 or $6,000 purchase of Liberty Bonds from the brokerage house, and have a check in that sum certified by their bank, which check almost exhausts their account. They then make a fac-simile of the genuine certified check, which fac-simile they turn over to the brokerage office and gain possession of the bonds. Then they rush to the bank and say that the brokerage house desires cash instead of a certified check, whereupon the bank cashes their certified check. They then close their account and disappear. This shows the necessity of careful scrutiny and the necessity for investigating new depositors' accounts.

Cooperate and Save

IF the banks will carry out the regulations of the American Bankers Association, they will decrease crime and reduce the excessive premiums they are now paying for insurance. Many bankers when they have a depredation committed against them take very little interest in the matter because they are insured. While there is no way of telling in dollars and cents how much a bank loses in a case of this character, they certainly do not enjoy the undesirable publicity given them, which always follows in the wake of crimes that could be prevented if precautionary measures were followed.

Where a bank keeps constantly before their employees the caution to look out for swindlers and forgers, that in itself has a tendency to keep that bank free from many annoyances, both within and without the bank.

New Twists

(*Continued from page* 15)

to some inferior stock before the time comes when he completes his payments on the Standard.

Usually, with the frequent rise and fall of the stock market, there comes a time when stock prices fluctuate, often downward, and no sooner does this occur when the swindler gets busy, calls to the attention of his client the fall in price of Standard Oil, and apologizes for making an error in judgment in recommending it. He expresses disappointment at the fall in price, and, in a fatherly way, advises his client to get out from under before it drops further by trading it for another stock, such as Gold Leaf Mining and Exploration Stock, or Weeping Willow Oil Stock, which stock the swindler is positive is certain to rise in value, making more money for his client than he could have possibly made on Standard Oil under the most favorable conditions.

Often bank stock is used as a bait to interest investors, and I know of one case where it was used in trading "suckers" out of a more valuable stock. In this case a block of stock of a bank was secured, taken 3000 miles away, and there the price was boosted 300 per cent, and, because it was stock of a bank located in one of our large cities, it was not difficult to trade it to inexperienced investors for securities worth three times its value.

Unfortunately, so many people are open to any proposition involving a trade; and, when they fall in the hands of these sharpers, they are certain to come out losers.

Auto Theft Skin Game

THIS case comes pretty close to being a "ringer." It has to do with a new way of catching automobile thieves. Can you imagine a skin-game artist promoting a plan for catching a thief?

But here's the plan and it produced over $100,000 for the promoter.

An auto theft bureau is organized. Let us call it Skinner's Auto Theft Bureau—for that name is appropriate—and fittingly describes what it does, only it does not "skin" the thief, but it does skin the man who enlists for the purpose of catching auto thieves, and who pays to the promoter from $500 to $4,000 for a job in the Bureau.

It is the old trick of buying into a wonderfully paying business, drawing a big salary and all getting rich, but it has more equipment than usually goes with such a position, for with the job goes the use of a portable radio set and an automobile with a reputation for endurance and speed.

Too Much Static

AS soon as the victim pays up for his job, he is placed on the salary roll of the auto theft bureau at a salary somewhat higher than is paid to the average patrolman. With his tank full of gas and his high-powered car he goes out in search of stolen automobiles, with the instruction that he is to "listen in" from time to time for radio stations broadcasting the description and license numbers of automobiles reported to the police department as stolen. Can you imagine a bigger "joke" than for members of this fictitious theft bureau, pausing along the road occasionally just to "tune in" for descriptions of stolen cars, with no radio station within two thousand miles broadcasting stolen car license numbers?

But the scheme evidently appealed to certain individuals for they gave up their old positions, paid over their savings and went to work looking for stolen autos. Their salary check came the first week and, in a few cases, it was received the second week. But long before the employee got his money back, it was discontinued for the reason that the employee lacked the peculiar ability to "spot" stolen cars, and therefore because he could not measure up to the job he was told to find employment elsewhere.

At the time this scheme "blew up" and the promoter landed in jail, he had ordered 2000 automobiles of one make, and 900 others of another make, so promising was the outlook for a big scoop, and so easy was it to catch new suckers. Buying a high-salaried job, or buying into a thriving business, usually leads to loss.

Apparently "there is more than one way to skin a cat," and the shrewd, unscrupulous promoter and skin-game artist is adept at finding different ways. For a novice investor, or for a banker to transact business with these artists is like playing with a buzz saw, for sooner or later the swindler will get the best of a deal.

Sympathy, Not Ridicule, for the Victims Needed

SOME swindles are so crooked that it is hard to get the straight of them. Once you glimpse behind the curtain and observe the various tricks of deception that are practiced to deceive people you are at once made sorry for them. Of course, it is always easy for an experienced banker and investor to look upon the victims of a collapsed promotion as poor fools who should have known better. In fact, the tendency is to place all of the blame on the victims, and to say that Barnum was right, and that the public likes to be skinned. Barnum may have been right, but one thing is certain: the average individual does not willingly consent to being fleeced out of his savings, nor does he relish being condemned because of a mistake he has made in investing his money.

"Getting down to brass tacks," I must say that the victim is not entirely to blame. By the nature of his occupation he has had no experience in investing money, and certainly he receives no training in that line while attending school. What to a banker is a skin-game pure and simple or a promotion with little chance of succeeding, may appear to the individual who is inexperienced altogether feasible, and he may have the utmost confidence in its success. Besides, the victim, as a rule, is quick to believe everything that is told him, so that when he meets a man who is visionary and glib of tongue, and who can paint masterpieces about great riches, the gambling instinct which is inherent in mankind asserts itself, and a poor investment is often the consequence.

So while our first thought is to regard victims of various swindles as poor dubs who should be swindled because they like it, let our bankers take a broader view of the whole situation and be just a little more sympathetic, and at every opportunity point out to them the folly of gambling with their savings.

Bankers should not overlook the fact that these losers were attacked by shrewd, unscrupulous high-pressure salesmen who know every trick of their crooked game, and who know just how and when to rush their victims off their feet and into some crooked deal. Many no doubt were taken unawares and hardly without fully realizing the step they were taking until they found themselves trapped.

Good advice is what these victims need, and it is this same advice which every person needs whether or not he has already lost.

Why Farm Relief

(Continued from page 22)

coercion. And it was even more utterly hopeless to try to induce these same three or four million men, growing different grades of wheat which command widely different prices, to contribute ratably to the losses incurred in lifting the surplus off our market and "dumping" it abroad.

So the farm relief leaders devised an ingenious plan of a farm products export corporation to buy up the domestic surpluses, thus raising domestic prices by the amount of the tariff; to sell them abroad for the best price obtainable; and then to assess the loss across the entire production—since all would share the gain—through the medium of a so-called equalization fee. A government board was to be created to supervise the whole operation. At the beginning of each year this board was to estimate the probable surplus for export and the probable world market price of the commodity, and from these compute the loss likely to be sustained. The equalization fee would then be fixed at such sum as would, when collected upon the entire crop, make up the loss. If the estimate proved too low or too high, the gain or loss would be carried forward into the next year's fee.

Two Main Objections

To this very ingenious and sincerely urged proposal the rest of the country, without regard to party politics, raised two main objections: First, that the equalization fee principle as advanced was unconstitutional, and, second, that despite its apparent matching of the methods of manufacturers, it was economically unsound and unworkable.

On the constitutionality, of course, lawyers disagree, but it will be conceded by the proponents of the fee themselves that the weight of authority in both House and Senate was against them with such eminent lawyers, for instance, as Senators Borah of Idaho, Reed of Missouri, and Walsh of Montana, and Representatives Moore and Tucker of Virginia—all from agricultural states—holding the legislation certain to be set aside in the courts.

The disposition of Congress, however, to help the farmer would have induced the waiver of this objection on the chance that the courts might sustain the law, except for the feeling that utter chaos would result if the complicated machinery planned in the Haugen Bill should be set up and then wrecked by court action. Too many of the existing channels of trade would have had to be changed and too many millions of bushels or pounds of commodities purchased to risk an overthrow of the whole structure. It was feared that the subsequent collapse of agriculture would be far worse even than that of 1920 and 1921.

While the representatives in Congress of the rest of the country were prepared to concede that there might be doubt on the constitutionality of the Haugen Bill, they were absolutely convinced of the economic unsoundness of the proposal. This unsoundness comes, partially at least, from a failure to consider the differences between manufacture and agriculture. The manufacturer does not proceed deliberately to produce surpluses for export, but gages, so far as he can, the probable needs of the domestic trade and manufactures beyond those needs only through error in estimate or, in some cases to a minor degree, because through quantity production he can reduce the overhead of his individual business. His "dumping" is of products produced for one or the other of these reasons. If his production too greatly exceeds the domestic market, his "dumping" may, and frequently does, take place at a price which more than exhausts his entire profits on his American sales.

Inducing Over-Production

On the other hand, the trouble with agriculture is partially a continuous over-production for the domestic market. This over-production is not for the purpose of reducing overhead as with some manufacturers, since it is a composite of 6,500,000 farmers acting independently. It is frequently due, of course, to favorable weather and growing conditions, but also, in wheat particularly, to over-planting.

It was strongly urged in Congress—and unanswered—that increasing the price the farmer received so as to give him an assured profit was absolutely certain to result in further increase of planting, which, with normal yields, must mean material increase in the amount to be "dumped" and the consequent loss thus sustained. The proponents conceded this, but claimed that the equalization fee would prevent this danger. In this it was felt they were wrong—until, at least, the equalization fee reached a point which would wipe out the new profit. It was also felt that while the fee nominally was to be paid by the producer, it was actually to be paid by the consumer through the enhanced price he paid for his foodstuffs, and would therefore not be felt by the producer. A further difference exists in that the individual manufacturer knows that he must bear the entire loss caused by his over-production and consequent dumping abroad and his zeal in producing is therefore restrained whereas the individual farmer would have no such certainty of individually bearing the loss.

The theory that the fee will act as a deterrent on production negatives the entire argument for the fee, for certainly if the mere matter of gain or loss is going to settle the volume of production, the farmer is going to produce more as long as he gets more money than he has previously gotten for his crops.

The whole argument also rests upon a faulty conception of the tariff. The protective tariff theory is that the duty should measure the difference between the cost of production at home and abroad, not between the sale price of the completed article at home and abroad. A world price of $1 for wheat includes the profit of the Argentinian, Canadian, or Australian wheat grower and the placing of the tariff of forty-two cents on top of this would not prevent his wheat from coming into this country at $1.42, since he would secure the same profit on such sales as he would secure on the world market. The farmer of America would not make a profit of forty-two cents out of selling wheat at the world price plus the tariff if the Canadian or other foreign farmer was satisfied to take a profit of ten cents or fifteen cents. If he really is going to pay the equalization fee, and if, as has been figured, that fee might easily run to twenty cents a bushel on wheat, and if the Canadian farmer is willing to take fifteen cents profit, the American farmer, after paying his fee, would still be losing five cents a bushel.

The most important and fundamental difficulty with the export corporation-equalization fee plan is that it proposes to do identically the same thing for the producer of both needed and unneeded commodities. There are certain sections of the United

States now raising wheat, for example, of a type and grade for which practically no demand exists in the United States. These wheats make up nearly our entire normal export surplus. These wheats produce the bulk of the statistical surplus which drives down the domestic market price. Yet, on the equalization fee principle, the price on these grades and on the North Dakota hard wheat, which is almost wholly consumed in the United States, would be equally enhanced.

The consequence would be that there would be just as much inducement—perhaps more, for many of these grades of wheat are grown on lands yielding more than average production to the acre—to the producer of purely export wheat to increase his production, as to the producer of the wheat we want in America. Consequently, the North Dakota farmer would be assessed a fee for the purpose primarily of bearing the loss incurred on some other farmer's wheat.

How Congress Stands

THE proponents of the Haugen Bill have so completely persuaded themselves of its merits that they both bitterly assail those who differ from them and flatly refuse to consider any other type of legislation.

I believe that the entire country is sympathetic and really anxious to secure effective farm relief, and that a vast majority of Congress would support any sound measure to secure it. The government, however, cannot properly drive any man out of business. His competitors legitimately may do so. An organization owned and controlled by American wheat growers, with entire propriety may maintain an adequate price for the grades of wheat for which domestic demand exists, and leave the growers of the purely export varieties to their own resources—or to some other kind of farming.

The farmer must be organized, but not by government coercion. Marketing processes can be greatly simplified and cheapened, and much of the spread between producer and consumer saved. Harmful speculation can be largely eliminated and helpful carry-overs promoted. Toward all these ends and more a government board may properly guide and many millions of government money may well be loaned or expended.

Legislation will come just as soon as the leaders of farm organizations are able and willing to sit down with minds freed from the hypnotic equalization fee doctrine and ready to discuss the subject on other and sounder lines. When that stage is reached, the Middle West will soon find, I am sure, that the opposition to the Haugen Bill held naught but friendly feeling toward its problem—which is the problem of us all.

Changes in Reserve Districts

Bernalillo and Valencia county in the state of New Mexico have been transferred from the Eleventh (Dallas) Federal Reserve District to the Tenth (Kansas City) Federal Reserve District.

McFadden Bill

(Continued from page 6)

ler. The present law (Section 5211 Revised Statutes) requires reports to be verified by the president or cashier and attested by three directors. The House bill amends this section so as to permit the board of directors to designate an assistant cashier or a vice-president to verify reports in the absence of the president and cashier. There was no change in the Senate bill.

13. *Rediscount by Federal Reserve Banks.* The House bill amended Section 5212, U. S. Revised Statutes, so as to provide that no Federal Reserve Bank shall discount for any member notes, drafts or bills of exchange of any one borrower to an amount greater than may be borrowed lawfully from any national bank under Section 5200, U. S. Revised Statutes, as amended, with a proviso that nothing in this paragraph shall be construed to change the character or classes of paper now eligible for discount by Federal Reserve Banks. The Senate bill struck out this amendment. The House conferees agreed with an amendment making certain clerical amendments in three related portions of the bill, to which the Senate conferees agreed.

14. *Theft by Examiner from Member Bank.* The House bill amended Section 22, Federal Reserve Act, by making it a Federal crime for an examiner or assistant examiner to steal from a member bank. The Senate bill made no change in this.

15. *Loans upon Real Estate.* The House bill reenacted Section 24, Federal Reserve

Act, relating to loans by national banks on real estate security with amendments making the time limit for loans on improved city property five, instead of one, year. The limit of such loans, including in the aggregate any loans on which the bank is liable as indorser or guarantor or otherwise, is 25 per cent on unimpaired capital and surplus, or one-half of savings deposits at the election of the bank, subject to the general limitation of Section 5200 of U. S. Revised Statutes. The Senate bill made no change to this amendment except a clerical one, to which the House conferees agreed.

16. *Clayton Act.* The Senate added a provision not in the House bill amending the Clayton Act by giving the Federal Reserve Board discretionary authority to permit, if public policy requires, a single person to serve as director of not more than three banks. The Senate conferees receded from this amendment.

17. *Shares of Not Less Than* $100. The Senate added provisions not in the House bill that national banks may hereafter divide their stock into shares of less than $100 par value, and in view of this permission, a further provision as to stock-ownership qualification of directors. The House conferees agreed, with amendments changing the section numbers.

18. *Extension of Federal Reserve Charters.*—The Senate added an amendment providing for the extension of the existing charters of Federal Reserve Banks until such time as the charters were dissolved by act of Congress, or forfeited for violation of law. The House bill contained no similar provision, and the House receded with an amendment which provided for the extension of such charters for a period terminating fifty years after the expiration of the present charters, except in case of dissolution by act of Congress or forfeiture for violation of law, and with a further amendment providing for creation of a joint special committee to inquire into the prices of commodities in the United States as affected since the year 1914 by the Federal banking laws.

Compromise Agreement on Hull Amendments

IN lieu of the Hull amendments, the conferees (with the exception of Congressman Wingo) agreed upon a compromise, which, as already said, was presented to the House on June 17. Under the compromise, (a) National banks might continue existing branches which are in lawful operation. (b) If a state bank was converted into or consolidated with a national bank, or two or more national banks are consolidated, the new bank might continue the branches of any of the banks in lawful operation. (c) National banks might hereafter establish new city branches if now permitted to state banks and if population is in excess of 100,000. Determination of number of branches to rest with the comptroller. (d) National banks in any state which at date law takes effect does not permit state bank branches, but which hereafter so permits, might establish new branches within city limits if population in excess of 100,000, limited to one branch where population does not exceed 250,000; two branches where not over 500,000; three branches where population does not exceed 750,000; four branches where population not over 1,000,000, and not more than five branches where population exceeds 1,000,000. (e) In cases where national banks are authorized to establish city branches, comptroller was given discretion to authorize branches beyond city boundaries if within same metropolitan area, but only where corporate limits of town where branches proposed at some point coincide with corporate limits of town where parent bank is located and when in his discretion he determines after public hearing that banking needs of inhabitants of said contiguous and urban territory require branch or branches; but no branch permitted in any part of state where state bank cannot have branch. (f) No branch of national bank could be established or moved from one location to another without consent of comptroller.

The remaining part of the compromise consisted of definitions of terms and a provision that the proposed law does not affect Section 25, Federal Reserve Act, authorizing foreign branches.

Points of Order Against Conference Report

THE conference report was called up in the House by Chairman McFadden on June 22 and debated all day.

Three points of order were made against the report on the ground that the conferees had exceeded their powers by inserting three amendments upon matters not in disagreement between the two Houses. These matters were (1) the addition to the amendment extending reserve charters for fifty years of a provision for a joint committee to investigate prices of commodities as affected since 1914 by Federal banking laws. (2) Certain technical changes in the language of the provision for indeterminate charters of national banks, there having been no disagreement over such language. (3) The addition of clerical amendments by the House conferees and agreed to by the Senate conferees when the House conferees agreed to the Senate amendment striking out the provision of the House bill relating to rediscounts by Federal Reserve Banks.

These points of order were all sustained, and this had the effect of rejecting the conference report. Although thus rejected, the report is an indication of how near both House and Senate conferees were together in everything except the Hull amendments.

Rejection by House of Hull Amendment Compromise

FOLLOWING the sustaining of the points of order, Chairman McFadden moved that the House insist on its disagreement to all the amendments of the Senate except the Hull amendments and that, in lieu of the Hull amendments, the House accept the compromise proposal.

When the debate was continued on Thursday, June 24, Chairman McFadden explained that his motion was in effect a restoration of the conference report without the items against which the points of order were made and that if the House sustained his motion it would be a vote for the conference report including the compromise on the Hull amendments. After extended debate, the House voted down the motion, yeas 115, nays 197.

Following the rejection of the compromise agreement, a motion was agreed to that the House insist on its disagreement to the Senate amendments and ask for a further conference; and further that the House conferees be instructed to adhere to the provisions of the bill relating to branch banking as passed by the House of Representatives. The House conferees were then reappointed.

Congress Adjourns Without Conference Agreement

SUBSEQUENTLY, the Senate reappointed its conferees and House and Senate conferees have had several meetings; but down to the time of the adjournment of Congress, no agreement had been reached and so far as the Hull amendments are concerned, there is no evidence of yielding on either side.

The House conferees are bound by their mandate to insist on the branch bank provisions as passed by the House and unless the Senate conferees yield on this proposition, there seems little hope for the bill.

However, the time intervening between now and December may permit of some change of sentiment as a result of further consideration.

Old Persia

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sack Brigade hitherto obscure, by name Reza Khan Pahlavi, simple, shrewd, direct, physically powerful, born to leadership, patriotic, self confident, and big of aim, became Minister of War and Commander-in-Chief of the Persian Army. He organized a real army, and, although since then he has become successively His Highness the Prime Minister, His Imperial Highness the head of the Provisional Government, and finally His Imperial Majesty Reza Shah Pahlavi, he has remained Commander-in-Chief of the army which he organized and which he has with remarkable genius directed.

The tribes have been subjugated and disarmed: the Kurds and Shahsevens of the North, the Bakhtiaris and Lurs of the Southwest, Sheikh Khaz'al—the so-called Sheikh of Mohammerah—who had obtained a position of semi-sovereignty over Khouzistan, the Turcomans of the Northeast. With the subjugation and disarming of the tribes, banditry has been suppressed throughout the country. Today, there are no tribal disorders, the roads are safe, and the taxes in practically every region of Persia are collected directly by the central financial administration.

Americans Helping

THE present American Financial Mission, coming to Persia in the fall of 1922, has thus worked synchronously with the able leader who has just become Shah.

Today, the situation of Persia is most encouraging.

There has been no revolution. By vote of the Majless or Parliament, the Kadjar Dynasty has been abolished; and on the mandate of a Constituent Assembly a new dynasty, that of Reza Shah Pahlavi, has been enthroned. The Constitution is intact; it is really in effect. The fifth Majless has just adjourned after a good legislative record; and the election of the deputies of the sixth Majless is proceeding according to law throughout the country. American administrators in Persia, who in 1925 had diminished to nine in number, have been increased by the almost unanimous vote of the Majless to eighteen. The adverse trade balance has practically disappeared. Except for the prohibition by the Soviet Government of the importation of Persian goods into Russia and negotiations pending with that Government concerning the tariff and the fisheries, no international or commercial difficulties of any importance exist. The currency remains sound. The toman, normally equal to the dollar, exchanges at a premium. A deficit of 2,500,000 tomans has been changed to a surplus of 400,000 tomans. Revenues have increased by 50 per cent. Per capita taxation is about 2½ tomans, and the public debt funded and floating is less. Expenditures are on a budgetary basis and are carefully controlled. Practically all foreign claims have now been settled and arrangements made for their liquidation; and the claims of Persian subjects, which had accumulated through the years, will be funded, according to a law passed by the Majless, and gradually paid over a period of twenty years. Archaic taxes have been abolished. Special revenues of four million tomans a year have been assigned to railroad construction, and of 1,500,000 tomans a year to highway building and maintenance. To provide expert direction for these projects, an American highway engineer and an American railroad construction engineer are being engaged. Irrigation and hydro-electric projects are under consideration; and an American agricultural expert has been employed to supervise the development of Persia's basic industry. Mindful of the necessity of social welfare, the Majless has appropriated one-seventh of the land taxes to universal public instruction and is also increasing substantially the funds devoted to public sanitation.

Thus, availing itself of its own resources, without reparations or loans and without political tutelage by foreign governments, Persia is proceeding successfully in its task of nation-building, self-government, reconstruction and progress.

Russia's Slow March

(*Continued from page* 34)

labor union delegation visited Moscow, they heard from Leon Trotsky a boast that Soviet Russia's new progress was entirely "due to the labor state," and that "concessions to private capital had played and would play a wholly insignificant rôle."

Policy of Tolerance Grows

WHEN the Germans returned to Berlin they reported that "Communism was becoming ever stronger." Yet hardly had they made their report when the state encouragement of private business was in full force. At the Moscow Labor Union Congress of November, 1924, both Rykoff and Dzerzhinsky, after lamenting the evil results of the suppression of private retail trading, declared emphatically that such private trading could not be dispensed with. In 1925 not much was done. But this year the official movement for tolerance of capitalism has proceeded rapidly. In March a Moscow Congress debated the question of appointing a commission of inquiry into "the uses of private capital in industry." A representative of the Supreme Council of Industry denounced vigorously the past attempts to crush private initiative. "Our administrative measures against private capital," he declared, "have proved entirely fruitless." The origin of the commission of inquiry lay with the "Gosplan," or State Planning Board, which was then about to draw up a five years' manufacturing program, and had discovered that the intended increase in industrial output could not be achieved without private capital. A month later Commissary Gubkin, chief of the oil council, declared that free capital was indispensable if his branch was to develop. He stated that 147 million roubles must be invested in oil plants in 1926 if the "Gosplan's" output program was to be realized, and in 1927 another 199 million roubles, and he added that "this capital cannot be taken out of the oil trusts' profits; it can be had only if foreigners are given an increasing share."

All these were mere expressions of opinion or demonstrations. They were followed by a report from the Supreme Council of Industry stating that 544 foreign industrial experts were needed by various manufacturing branches, 254 by the steel branch alone. "It cannot be denied," it was said, "that these experts will have to receive emoluments customary in capitalistic countries." A final measure was the circularizing of the governments of all six chief federated Soviet republics inviting them to inquire into and report upon the benefits already conferred by private capital "both in the factory and on the land."

Concessions and Restorations

AS a rule when Bolshevik politicians make concessions to capitalism they demonstrate vigorously against capitalism. Naturally, therefore, when they demonstrated in favor of capitalism as related, they pushed energetically their policy of concessions in practice. Some concessions took the form of permitting free creation of new private undertakings of kinds hitherto prohibited; others took the still more significant form of complete restitution of pre-war property rights; and a third class consisted of tax abatements and other methods of encouragement. Up to June, 1925, no private industrial undertaking whatever could be founded without a license from the central authority. In that month the Council of Commissaries sanctioned a law permitting private industrial foundations without any license in cases where not more than twenty workmen were employed; and the local authorities were permitted to license private undertakings employing between twenty and 100 men. The central authority's license was to be necessary only where more than 100 men were employed. The restitution act was materially not important, but being the first of its kind it was highly significant. It consisted in the Petrograd Central Executive's restoration to the original owners of their villas and apartment houses. Only houses with not more than eight apartments were restored, and houses containing offices or industrial establishments were not restored. The condition was made that the owners must set the restored buildings in order. This proviso confirms the theory that Soviet concessions are dictated by

practical and not by theoretical considerations. The small houses were chosen because they had fallen into a bad condition of repair, and because the Soviets had not the cash wherewith to repair them. Altogether 5500 villas and apartment houses were given back.

The tax alleviations for private property are dictated by the same severe concern for the practical. They result not from love of private capitalism but from the Soviet republic's own financial exigencies. In April this year the Council of Labor and Defence resolved after a heated debate that "the new (1924) suppression of private business in the interests of state capitalism produced a serious economical crisis; that taxation must be reduced, and that private industry must even be given state credits." Hitherto only the nationalized trusts had had state credits. Kameneff and Dzerzhinsky supported the reform. A bill authorizing credits of 746 million roubles to private industries was drafted. Simultaneously the Finance Commissariat pronounced for amendment of the industrial tax upon private enterprises. In order to curry favor with communist enthusiasts the local tax inspectors had been inforcing the industrial tax ruthlessly. The commissariat decreed that the tax inspectors should be held "personally responsible" for over-taxing private industrial concerns. Some weeks later appeared a further decree encouraging foreign capitalists to help solve the tremendous housing question. Any foreigner willing to build a house or a factory was given the right to import steel and other construction material duty-free. Here again it was the Soviets' need and not its love of private capital which impelled the reform.

Failure of State Distribution

SO much for the five steps forward. But simultaneously communist orthodoxy had to have its four steps back. Luckily these steps were mere propaganda. While the official press was daily chronicling new concessions to private property, it was busily proving to the communist stalwarts that private property was being discouraged. In September, 1925, the government issued a report, published under the heading "Nationalization Gains," in which it was alleged that nationalized industry was progressing more rapidly than private. The report stated that whereas between the business years 1923-24 and 1925-26 the output of private manufacturing industries rose only from 1728 to 2334 million roubles, the output of nationalized industries rose from 5562 to 9186 million roubles—the share of nationalized industry in the whole industrial production had risen from 76.3 per cent to 79.7 per cent. And in the official "Ekonomitcheskayz Zhizn" appeared an essay by Commissary Strumilin stating that private industry was insignificant; 89 per cent of all instruments of industrial production were in state hands, and the percentage in the case of the great industries was 99 per cent. Private trade, it was added, was also receding. Of the total home wholesale and retail trade, the following percentages were conducted by private and by public organizations:

	Private	State	Cooperative
1923-24	35.3	45	19.7
1924-25	23.4	50	26.6

Yet a later report admitted that "the failure of the state retail distributing organs is one main cause of the manufacturer's famine, and therefore a hindrance to the delivery of grain for export." It promised that "honest private traders will be encouraged locally," but added that "in principle the State Foreign Trade Monopoly will be rigorously inforced." But in practice this monopoly is being breached. There are reasons for breaching it, the most cogent being the fearful wastefulness of nationalized importing and exporting. The official journal already quoted publishes detailed figures to show that whereas the farmer is paid 90 kopecks a pud for his rye the overhead and transportation expenditure on such rye when exported is 62 kopecks, the respective figures for wheat being 129 and 64 kopecks. Overhead and transportation charges for other products cost 7 to 15 fold more than in 1913, which, allowing for a price rise of about 100 per cent, means an increase between 3½ and 7½ fold.

Concessions to private corporations to conduct foreign trade have not been a great success. Taxes on such enterprises are heavy, and the state exacts a share of the profits. Nevertheless the "Russertorg," founded by Otto Wolff of Cologne, increased its import and export operations (mostly sales of dyes to Russia) from 26,500,000 marks in 1924 to 72,200,000 marks in 1925. Germans have tried to develop the "consignation depot" system, by which,

without booking orders, they despatch goods to Russia for sale on the spot. But this system has not been a great success—again are heard complaints of taxation, onerous payment terms, and official chicanery; and the last news is that all the scattered twenty or thirty German consignation depots are to be abolished, and a single central depot established at Moscow.

State Trading With Foreign Countries

THE Soviet government admits that it cannot successfully pursue direct state trading with foreign countries. It is therefore acting as it acted when it converted bureaucratically managed factories and mills into state trust corporations. The state remains owner, but the commercial methods of private corporations are introduced. On this principle the Moscow government is creating a whole network of new import and export companies. The six existing state export organizations are to be freed. These are the Export Syndicate for Grain; the Naphtha Export Syndicate; the Chemicals-Pharmaceutical Syndicate; the Rudmetalltorg (for scrap iron), the Precious Stones, and Rubber trusts. Hitherto these corporations have had to get state licenses for every single transaction. They are now to be given general licenses. To purely private foreign-trading concerns, operating with private capital, twenty-five concessions have been given, in addition to that to the Russertorg. In their operations these trading concerns are very little freer from control than are the state export organizations. But their mere existence is a reminder that the former unqualified state foreign trade monopoly has come forever to an end.

The Foreign Concessions

WHETHER Russia will go much farther with the system of industrial concessions to foreigners is doubtful. She is more likely to permit free manufacturing to foreigners on condition that they do not employ large numbers of men. So far there have been important American, German, Japanese, and British concessions. The first of all, the Wolff concession, failed; and all the stock in the company fell to the Soviet state. The Mologda Lumber Concession, negotiated by the German ex-Chancellor Wirth, and the Krupp Agricultural Concession in the south have proved successful, especially the first. The Harriman Manganese Concession in the Caucasus is potentially the most valuable for foreigners; and it is being bitterly attacked by communist die-hards as a surrender to "the most backward, the most combative, and the most inimical of capitalistic countries." Satisfactory to both parties are the North Saghalien oil and coal concessions made under treaty to Japan. Japan gains what she most wants; and the Soviets get heavy royalties and, what is more important, they get a guarantee against future Japanese support for white "counter-revolutionaries" in the Far East. In general the concession movement is declining. After applications reached a high point of 603 in 1923 they declined until in one quarter of last year only thirty were made. And out of the whole 1500 applications between November, 1921, the date of the first concessions law, and December, 1925, only 110 were granted.

Concessions however are concessions. They mark a departure from communist orthodoxy. They recognize property rights for a lease or concession is property, just as is permanent ownership. And though the Soviet bureaucrats are annoying, pedantic, suspicious, and dilatory in their dealings with concessionaires, they have in general fulfilled their obligations. Whether this is the result of virtue or necessity may be doubted. It is probably a mixture of both. The Bolsheviks have discovered that though one may repudiate old debts a single time and get away with it, one cannot permanently conduct business on a basis of repudiation. The same applies to Soviet Russia's foreign trade. In fulfillment of obligations—at any rate in Europe—the Soviet state-trading authorities have of late lived up to the best standard. This policy has profited them. Owing to their failure to export sufficient grain from the crops of 1925 they badly need credit. When they had punctually repaid the 100,000,000 marks credit given by German banks last winter, they reaped the reward of virtue, because immediately afterwards a new credit, this time for 300,000,000 marks, was arranged. But in all this honesty one sees only expediency. After Germany in the Rapallo Treaty formally relinquished all war and revolution claims for money, and yet soon afterwards gave the Soviets abundant credits, it is hard to believe that the Soviets will recognize old United States claims. They are in the happy position of a bankrupt who, having irrevocably expropriated his creditors, starts business anew, and considers that honesty in the future is sufficient without restitution for the past. The prospect of a return of foreign properties in Russia is certainly very small. But it may come. It will certainly come if Soviet Russia finds it more profitable to restore than to retain. That was her spirit at Genoa and The Hague, when she was quite willing to recognize at least part of her old debts if only she was given an opportunity of incurring new debts.